



Control Number: 51415



Item Number: 318

Addendum StartPage: 0

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

RECEIVED

2021 MAR 31 PM 3:10

APPLICATION OF SOUTHWESTERN  
ELECTRIC POWER COMPANY FOR  
AUTHORITY TO CHANGE RATES

§  
§  
§

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS

REDACTED

DIRECT TESTIMONY

AND

WORKPAPERS

OF

CONSTANCE T. CANNADY

ON BEHALF OF THE

OFFICE OF PUBLIC UTILITY COUNSEL

Constance T. Cannady  
NewGen Strategies & Solutions, LLC  
2803 Bowie Street  
Amarillo, TX 79109

MARCH 31, 2021

**REDACTED**  
**DIRECT TESTIMONY AND WORKPAPERS OF**  
**CONSTANCE T. CANNADY**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>I. INTRODUCTION AND QUALIFICATIONS.....</b>	<b>6</b>
<b>II. PURPOSE AND SCOPE.....</b>	<b>6</b>
<b>III. SUMMARY AND RECOMMENDATIONS.....</b>	<b>7</b>
<b>IV. RECOMMENDED ADJUSTMENTS RELATED TO DOLET HILLS POWER STATION.....</b>	<b>9</b>
<b>A. Retirement of the Dolet Hills Power Station by December 31, 2021 .....</b>	<b>11</b>
<b>B. Adjustment Related to the Dolet Hills Power Station Lignite Mining Costs .....</b>	<b>21</b>
1. Oxbow Mine Reserves Investment .....	22
2. DHLIC Equity and Related Taxes .....	27
<b>C. Development of a Rate Rider for the Dolet Hills Power Station .....</b>	<b>28</b>
<b>V. RECOMMENDED ADJUSTMENTS TO LABOR-RELATED EXPENSE.....</b>	<b>31</b>
<b>A. Annualization of Base Payroll Expense for SWEPCO and American Electric Power Service Corporation (“AEPSC”) .....</b>	<b>31</b>
<b>B. Adjustment to Annual Incentive Compensation .....</b>	<b>34</b>
1. STI Compensation for SWEPCO Employees.....	36
2. STI Compensation Billed to SWEPCO by AEPSC .....	42
<b>C. Severance Pay for SWEPCO and AEPSC Employees .....</b>	<b>43</b>
<b>VI. RECOMMENDED ADJUSTMENT TO PROPOSED STORM RESERVE.....</b>	<b>45</b>
<b>VII. RECOMMENDED DISALLOWANCE OF PROPOSED INCREASE IN VEGETATION MANAGEMENT EXPENSE.....</b>	<b>48</b>
<b>VIII. ATTENDANT IMPACTS .....</b>	<b>51</b>
<b>IX. REFUND OF EXCESS DEFERRED INCOME TAXES.....</b>	<b>52</b>
<b>X. TESTIMONY SUMMARY.....</b>	<b>55</b>

<b><u>SCHEDULES</u> .....</b>	<b>57</b>
-------------------------------	-----------

<b>SCHEDULE CTC-A</b>	<b>SUMMARY OF OPUC ADJUSTMENTS TO TEXAS RETAIL REVENUE REQUIREMENTS</b>
-----------------------	---

SCHEDULE CTC-1	SUMMARY OF RECOMMENDED ADJUSTMENTS TO TOTAL COMPANY REVENUE REQUIREMENTS
SCHEDULE CTC-1A	SUMMARY OF RECOMMENDED ADJUSTMENTS TO TEST YEAR OPERATING EXPENSES
SCHEDULE CTC-2	SUMMARY OF RECOMMENDED ADJUSTMENTS TO RATE BASE – TOTAL COMPANY AND TEXAS RETAIL
SCHEDULE CTC-3	RECOMMENDED ADJUSTMENT TO REMOVE DOLET HILLS FROM NET PLANT IN SERVICE
SCHEDULE CTC-3A	COMPUTATION OF 2021 DOLET HILLS RATE RIDER
SCHEDULE CTC-3B	COMPUTATION OF DOLET HILLS NET PLANT IN SERVICE TO BE INCLUDED IN THE DH RATE RIDER
CONFIDENTIAL SCHEDULE CTC-3C	COMPUTATION OF DOLET HILLS LIGNITE INVENTORY TO BE INCLUDED IN DH RATE RIDER
SCHEDULE CTC-4	TEST YEAR O&M AND INSURANCE EXPENSE FOR DOLET HILLS
SCHEDULE CTC-5	ADJUSTMENT TO REMOVE OXBOW MINE INVESTMENT
SCHEDULE CTC-6	RECOMMENDED ADJUSTMENT TO FUEL INVENTORY FOR DOLET HILLS
SCHEDULE CTC-7	ADJUSTMENT TO BASE PAYROLL
SCHEDULE CTC-7A	RECOMMENDED ADJUSTMENT TO SWEPCO DIRECT PAYROLL
SCHEDULE CTC-7B	RECOMMENDED ADJUSTMENT TO AEPSC PAYROLL BILLED TO SWEPCO
SCHEDULE CTC-8	RECOMMENDED ADJUSTMENT TO SWEPCO DIRECT STI COMPENSATION
SCHEDULE CTC-9	RECOMMENDED ADJUSTMENT TO DIRECT STI EXPENSE BY FERC ACCOUNT
SCHEDULE CTC-10	RECOMMENDED ADJUSTMENT TO AEPSC STI COMPENSATION

SCHEDULE CTC-11	RECOMMENDED ADJUSTMENT TO NON-ELIGIBLE FUEL EXPENSE TO REMOVE DHLIC EQUITY AND RELATED TAXES
SCHEDULE CTC-12	RECOMMENDED ADJUSTMENT TO DEPRECIATION AND AMORTIZATION FOR DOLET HILLS UNRECOVERED NET BOOK VALUE
SCHEDULE CTC-13	RECOMMENDED ADJUSTMENT TO PROPOSED STORM RESERVE
SCHEDULE CTC-14	RECOMMENDED ADJUSTMENT TO VEGETATION MANAGEMENT EXPENSE
SCHEDULE CTC-15	RECOMMENDED ADJUSTMENT TO AD VALOREM TAXES
SCHEDULE CTC-16	RECOMMENDED ADJUSTMENT TO SEVERANCE PAY
SCHEDULE CTC-17	ESTIMATED ATTENDANT IMPACTS TO CASH WORKING CAPITAL

**ATTACHMENTS ..... 83**

ATTACHMENT A	Resume of Constance T. Cannady and Record of Testimony
ATTACHMENT B	SWEPSCO Response to CARD RFI No. 2-13
ATTACHMENT C	SWEPSCO Response to OPUC RFI No. 3-10
ATTACHMENT D	SWEPSCO Response to OPUC RFI No. 5-7
ATTACHMENT E	SWEPSCO Response to Commission Staff RFI No. 5-27
ATTACHMENT F	SWEPSCO Response to Commission Staff RFI No. 5-9
ATTACHMENT G	SWEPSCO Response to CARD RFI No. 2-10
ATTACHMENT H	SWEPSCO Response to TIEC RFI No. 1-19
ATTACHMENT I	SWEPSCO Response to Commission Staff RFI No. 5-60
ATTACHMENT J	SWEPSCO Response to OPUC RFI No. 9-2
ATTACHMENT K	SWEPSCO Confidential Response to OPUC RFI No. 5-1
ATTACHMENT L	SWEPSCO Response to OPUC RFI No. 9-6
ATTACHMENT M	SWEPSCO Response to OPUC RFI No. 6-2
ATTACHMENT N	SWEPSCO Response to OPUC RFI No. 6-3
ATTACHMENT O	SWEPSCO Response to OPUC RFI No. 1-15
ATTACHMENT P	SWEPSCO Response to OPUC RFI No. 2-11, Attachment 1 at 52

ATTACHMENT Q	SWEPCO Response to Commission Staff RFI No. 5-33
ATTACHMENT R	SWEPCO Response to Commission Staff RFI No. 5-34
ATTACHMENT S	SWEPCO Response to OPUC RFI No. 4-1
ATTACHMENT T	SWEPCO Response to OPUC RFI No. 7-5
ATTACHMENT U	SWEPCO Response to OPUC RFI No. 7-8
ATTACHMENT V	SWEPCO Response to CARD RFI No. 2-14
ATTACHMENT W	SWEPCO Response to CARD RFI No. 2-24
ATTACHMENT X	SWEPCO Response to Commission Staff RFI No. 2-10
ATTACHMENT Y	SWEPCO Response to OPUC RFI No. 10-3
ATTACHMENT Z	SWEPCO Response to Commission Staff RFI No. 5-57
ATTACHMENT AA	SWEPCO Response to OPUC RFI No. 9-1
ATTACHMENT AB	SWEPCO Response to OPUC RFI No. 9-5
ATTACHMENT AC	SWEPCO Response to Commission Staff RFI No. 5-36
ATTACHMENT AD	SWEPCO Response to OPUC RFI No. 11-6
ATTACHMENT AE	SWEPCO Response to OPUC RFI No. 11-1
<b><u>WORKPAPERS</u></b>	<b>144</b>

1                                   **I.       INTRODUCTION AND QUALIFICATIONS**

2   **Q.     PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3   A.     My name is Constance T. Cannady. I am an Executive Consultant with NewGen Strategies  
4         & Solutions, LLC. My office is located at 2803 Bowie Street, Amarillo, Texas 79109.

5   **Q.     ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
6         **PROCEEDING?**

7   A.     I am presenting testimony on behalf of the Office of Public Utility Counsel (“OPUC”).

8   **Q.     PLEASE   OUTLINE   YOUR   EDUCATIONAL   AND   PROFESSIONAL**  
9         **BACKGROUND.**

10  A.     Attachment A provides a description of my qualifications and education, and a list of  
11         dockets in which I have provided expert witness testimony.

12  **Q.     HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY AGENCY?**

13  A.     Yes, I have. Attachment A includes a list of dockets in which I have provided expert  
14         witness testimony before the Public Utility Commission of Texas (“Commission”) and  
15         other regulatory bodies.

16                                   **II.       PURPOSE AND SCOPE**

17  **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

18  A.     The purpose of my testimony is to present my analysis, findings, and recommendations  
19         with respect to Southwestern Electric Power Company’s (“SWEPCO” or the “Company”)   
20         request to increase its Texas retail base rates. Specifically, I address SWEPCO’s proposed

1 treatment of the following expenses in the Company's requested total Company and Texas  
2 retail revenue requirement:

- 3 1. Rate Treatment for the Dolet Hills Power Station and Related Expenses;
- 4 2. Annualization of Base Payroll Expense;
- 5 3. Annual Incentive Compensation Expense;
- 6 4. Rate Recovery of Severance Pay;
- 7 5. Requested Storm Reserve;
- 8 6. Requested Increase in Vegetation Management Expense; and
- 9 7. Refund of Excess Deferred Income Taxes

10 **Q. IF YOU DO NOT ADDRESS AN ISSUE OR POSITION IN YOUR TESTIMONY,**  
11 **SHOULD THAT BE INTERPRETED AS SUPPORTING THE COMPANY'S**  
12 **POSITION ON THAT ISSUE?**

13 A. No. Any cost or adjustment included in SWEPCO's Rate Filing Package ("RFP") that is  
14 not addressed in my testimony does not indicate my acquiescence to SWEPCO's  
15 proposed cost or adjustment.

### 16 **III. SUMMARY AND RECOMMENDATIONS**

17 **Q. PLEASE SUMMARIZE YOUR OVERALL RECOMMENDATIONS THAT**  
18 **IMPACT SWEPCO'S PROPOSED TEXAS RETAIL REVENUE REQUIREMENT.**

19 A. Based on the Company's RFP, SWEPCO requests an increase of \$228,419,735 to its total  
20 company revenue requirement.<sup>1</sup> After application of the Texas jurisdictional cost

---

<sup>1</sup> Direct Testimony of Michael A. Baird at 4.



1 allocators included in the RFP, Schedule P-1, the request results in an increase of \$105.03  
2 million<sup>2</sup> to the Texas retail revenue requirement. As shown on Schedule CTC-1, I  
3 recommend an increase of \$184,864,890 for the total company revenue requirement, a  
4 decrease of \$43,554,845 from SWEPCO's request.<sup>3</sup> After application of the Texas  
5 jurisdictional cost allocators, my recommendation results in an increase of \$85,315,036 to  
6 the Texas retail revenue requirement, a decrease of \$19,711,202 from SWEPCO's request.<sup>4</sup>  
7 I also recommend that SWEPCO refund the protected excess accumulated deferred income  
8 taxes ("excess ADFIT") that are eligible for refund pursuant to the Internal Revenue  
9 Service ("IRS") normalization rules through a one-time refund to Texas retail customers.  
10 With respect to the Texas retail balance of unprotected excess ADFIT, I recommend that  
11 SWEPCO refund the total amount of the Texas retail balance of unprotected excess ADFIT  
12 to Texas retail customers over a two-year period through a tax credit rate rider inclusive of  
13 a carrying charge that is computed monthly and based on the final weighted average cost  
14 of capital ("WACC") that is approved by the Commission in this proceeding.

---

<sup>2</sup> *Id* (Texas Retail Base Rate Deficiency: \$105,026,238).

<sup>3</sup> Schedule CTC-1 (OPUC Recommended Increase in Revenue Requirement).

<sup>4</sup> Schedule CTC-A. (OPUC Recommended Increase in Texas Retail Revenue Requirement).

#### IV. RECOMMENDED ADJUSTMENTS RELATED TO DOLET HILLS POWER STATION

**Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF SWEPKO'S PROPOSAL WITH RESPECT TO THE COMPANY'S SHARE OF THE ASSETS AND OPERATIONS AND MAINTENANCE ("O&M") EXPENSES FOR THE DOLET HILLS POWER STATION.**

A. It is my understanding that SWEPCO is requesting to recover the Dolet Hills Power Station assets and O&M costs in the Company's proposed base rates.<sup>5</sup> SWEPCO's request to recover the Dolet Hills Power Station assets and O&M costs in base rates includes an accelerated recovery of the estimated net book value of the Dolet Hills Power Station assets and O&M costs based on the Company's planned retirement of the Dolet Hills Power Station by December 31, 2021.<sup>6</sup> The balance of the Dolet Hills Power Station assets, for which the Company requests both a return on and a return of, incorporates: (1) an offset for all of the unprotected excess ADFIT that resulted from the change in federal corporate income tax rate from 35% to 21% pursuant to the Tax Cuts and Jobs Act of 2017 ("TCJA")<sup>7</sup>; and (2) a portion of the protected excess ADFIT that resulted from the change in the federal corporate income tax pursuant to the TCJA.<sup>8</sup> All O&M, ad valorem taxes, and insurance related to the operation of the Dolet Hills Power Station are included in the

<sup>5</sup> Direct Testimony of Mr. Thomas P. Brice at 5-8.

<sup>6</sup> Direct Testimony of Mr. Michael A. Baird at 48-49, Exhibit MAB-4.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

1 Company's requested total Company revenue requirement at the per book level of  
2 expense.<sup>9</sup>

3 Based on the Company's response to OPUC Request for Information ("RFI") No.  
4 5-7, the portion of the total company revenue requirement that is related to the Dolet Hills  
5 Power Station is approximately \$29.4 million and the portion of the Texas retail revenue  
6 requirement that is related to the Dolet Hills Power Station is approximately \$10.9 million.  
7 SWEPCO's proposal to use the entire balance of the unprotected excess ADFIT to offset  
8 the undepreciated value of the Dolet Hills Power Station assumes that the Company's  
9 existing refund liability related to the unprotected balance of excess ADFIT has been  
10 satisfied without any remaining unprotected deferred liability.<sup>10</sup>

11 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED RATE TREATMENT**  
12 **OF THE DOLET HILLS POWER STATION?**

13 A. No. There are several reasons why the Company's proposal with respect to the rate  
14 treatment of the Dolet Hills Power Station should be denied by the Commission.  
15 Specifically, the Commission should deny SWEPCO's proposed rate treatment of the Dolet  
16 Hills Power Station for the following reasons:

- 17 • SWEPCO's planned retirement of Dolet Hills Power Station by December 31, 2021<sup>11</sup>  
18 limits the period that the plant will be used and useful in providing service to the  
19 Company's customers;

---

<sup>9</sup> Attachment B, SWEPCO Response to CARD RFI No. 2-13. (SWEPCO states it has not proposed any adjustments to the test year non-fuel expenses related to the Dolet Hills Power Station.)

<sup>10</sup> Attachment C, SWEPCO Response to OPUC RFI No. 3-10.

<sup>11</sup> Direct Testimony of Mr. Thomas P. Brice at 6:11-12.

- SWEPCO's original retirement date for the Dolet Hills Power Station was originally established as 2046 based on a 60-year useful life;<sup>12</sup>
- SWEPCO has previously argued that its continued investment in the Dolet Hills Power Station is for the purpose of extending the useful operating life of the Dolet Hills Power Station to at least 2026;<sup>13</sup> and
- SWEPCO's return of the unprotected excess ADFIT to Texas retail customers should be accomplished through a more transparent refund that assures Texas retail customers receive the refund amounts resulting from the passage of the TCJA.

**A. Retirement of the Dolet Hills Power Station by December 31, 2021**

**Q. BASED ON SWEPCO'S PROPOSAL TO RETIRE THE DOLET HILLS POWER STATION BY DECEMBER 31, 2021, WHAT IS YOUR RECOMMENDED RATE TREATMENT OF THE DOLET HILLS POWER STATION ASSETS AND O&M COSTS?**

**A.** I recommend that rate recovery for the asset and O&M costs associated with the Dolet Hills Power Station be accomplished through a separate rate rider ("Dolet Hills Rate Rider") that allows for charging Texas retail customers the costs to operate the Dolet Hills Power Station only during the period that the Dolet Hills Power Station remains used and useful in providing electric service to the Company's Texas retail customers. In contrast, SWEPCO's proposal to allow the assets and O&M costs related to the Dolet Hills Power Station to remain in the total Company and Texas retail revenue requirement<sup>14</sup> will permit SWEPCO to recover these asset and O&M costs until the Company files a subsequent

---

<sup>12</sup> Attachment G, SWEPCO Response to CARD RFI No. 2-10, Attachment 1 at 18.

<sup>13</sup> Docket No. 40443, PFD at 73 (May 20, 2013).

<sup>14</sup> Direct Testimony of Michael A. Baird, Exhibit MAB-4

1 application for new base rates. Based on the general timing for base rate requests<sup>15</sup> and the  
2 Company's plans to retire the Dolet Hills Power Station by December 31, 2021,  
3 SWEPCO's proposed rate treatment of the Dolet Hills Power Station would allow the  
4 Company to earn a return on the current balance of the Dolet Hills Power Station assets  
5 and the test year O&M expenses well after the Dolet Hills Power Station is no longer used  
6 and useful in providing electric service to the Company's Texas retail customers.

7 The use of a separate rate rider allows SWEPCO to earn a return on the asset and  
8 O&M expenses associated with the Dolet Hills Power Station only for the period that the  
9 Dolet Hills Power Station is used and useful in providing electric service to the Company's  
10 Texas retail customers. The rate rider can be discontinued upon the actual retirement of  
11 the Dolet Hills Power Station. The only remaining costs for SWEPCO to recover from  
12 Texas retail customers would be the net book value of the Dolet Hills Power Station at the  
13 time of retirement. As discussed later in my testimony, I recommend recovery of the  
14 remaining net book value based on a 25-year amortization of the costs in base rates.

15 **Q. HOW DID YOU EXTRACT THE O&M COSTS OF THE DOLET HILLS POWER**  
16 **STATION FROM THE COMPANY'S PROPOSED REVENUE REQUIREMENT**  
17 **FOR INCLUSION IN THE DOLET HILLS RATE RIDER?**

18 A. In response to OPUC RFI No. 5-7, SWEPCO provided the basic components of the costs  
19 included in the Company's requested total company revenue requirement for the continued  
20 operation of the Dolet Hills Power Station in 2021.<sup>16</sup> I have used SWEPCO's response to

---

<sup>15</sup> 16 Texas Administrative Code ("TAC") § 25.246.

<sup>16</sup> Attachment D, SWEPCO Response to OPUC RFI No. 5-7, Attachment 1.

1 OPUC RFI No. 5-7 to account for the cost components that would be required in the Dolet  
2 Hills Rate Rider.

3 As shown on Schedule CTC-3, my first recommended adjustment was to remove  
4 the Company's adjusted Dolet Hills Power Station net plant in service from the Company's  
5 proposed rate base.<sup>17</sup> On a total company basis, this reduces the net plant in service by  
6 \$40,483,505; a \$14,955,988 reduction to SWEPCO's proposed Texas retail rate base for  
7 the Dolet Hills Power Station.<sup>18</sup> Removal of the net plant in service amount ensures the  
8 base rates will not include a return component for the Dolet Hills Power Station. Other  
9 components removed or adjusted based on the Company's proposed revenue requirement  
10 include:

- 11 • Test year end value of lignite inventory for the Dolet Hills Power Station  
12 operations;
- 13 • Test year O&M expenses for SWEPCO's portion of operating the Dolet  
14 Hills Power Station;
- 15 • Test year ad valorem taxes related to SWEPCO's allocable portion of the  
16 Dolet Hills Power Station's taxable assets; and
- 17 • Adjusted depreciation expense for recovery of the undepreciated balance of  
18 the Dolet Hills Power Station at the time of retirement.

19 **Q. PLEASE EXPLAIN THE IMPACT OF EACH OF THE DOLET HILLS POWER**  
20 **STATION COMPONENTS THAT YOU ADJUSTED OR REMOVED FROM THE**  
21 **COMPANY'S PROPOSED BASE RATE REVENUE REQUIREMENT.**

---

<sup>17</sup> Schedule CTC-3.

<sup>18</sup> *Id.*; see also Direct Testimony of Michael A. Baird, Exhibit MAB-4 (Total Company Net Book Remaining Value; \$40,483,505; Texas Net Book Remaining Value: \$14,955,988).

1 A. I have prepared a schedule for each of my recommended adjustments to the test year level  
2 of investment and expense for the Dolet Hills Power Station operations. With respect to  
3 the lignite inventory for the total company, the Dolet Hills Power Station portion that  
4 SWEPCO included in rate base is \$28,528,383 on a total Company basis<sup>19</sup> and \$10,544,627  
5 for Texas retail operations.<sup>20</sup> As shown on Schedule CTC-5, I removed this entire amount  
6 from my recommended rate base computation. In response to Commission Staff RFI No.  
7 5-57, the total O&M expenses included in the test year for SWEPCO's share of the Dolet  
8 Hills Power Station is \$12,909,516 on a total company basis; \$5,047,891 for Texas Retail  
9 operations.<sup>21</sup> My recommended removal of this amount from the Company's revenue  
10 requirement is shown on Schedule CTC-4. The ad valorem tax expense incurred directly  
11 by SWEPCO for its portion of the Dolet Hills Power Station assets was provided by  
12 SWEPCO in response to Commission Staff RFI No. 5-9.<sup>22</sup> As shown on Schedule CTC-  
13 15, I have removed the Dolet Hills Power Station test year ad valorem tax expense of  
14 \$2,835,700 on a total company basis; \$1,077,282 for Texas retail operations.

15 **Q. DID YOU ALSO REMOVE ALL OF THE DEPRECIATION EXPENSE RELATED**  
16 **TO THE DOLET HILLS POWER STATION FROM THE BASE RATE REVENUE**  
17 **REQUIREMENT?**

18 A. No. My recommended adjustment to the Company's proposed depreciation expense for  
19 the Dolet Hills Power Station extends the recovery period for the undepreciated balance of

---

<sup>19</sup> RFP, WP B-1.5.7.

<sup>20</sup> Schedule CTC-6.

<sup>21</sup> Attachment Z, SWEPCO Response to Commission Staff RFI No. 5-57.

<sup>22</sup> Attachment F, SWEPCO Response to Commission Staff RFI No. 5-9.

1 the Dolet Hills Power Station from the Company's proposed four-year period to a period  
2 of twenty-five years in accordance with the original retirement date of 2046. I have also  
3 included the estimated Dolet Hills Power Station demolition costs in the amount to be  
4 recovered over the same 25-year period. My recommended adjustment is shown on  
5 Schedule CTC-12 and results in a reduction to SWEPCO's proposed depreciation expense  
6 in the amount of \$5,753,431 on a total company basis; \$2,125,514 for Texas retail  
7 operations.<sup>23</sup>

8 **Q. PLEASE EXPLAIN WHY AN ADJUSTMENT TO THE AMORTIZATION**  
9 **PERIOD, FROM FOUR YEARS TO TWENTY-FIVE YEARS, FOR THE**  
10 **UNRECOVERED BALANCE OF THE DOLET HILLS POWER STATION**  
11 **RESULTS IN A REDUCTION OF ONLY \$5.69 MILLION TO THE \$10.12**  
12 **MILLION DEPRECIATION EXPENSE PROPOSED BY SWEPCO.**

13 A. The Company's proposed depreciation expense of \$ 10,120,876 already reflects the total  
14 unprotected excess ADFIT liability and eligible protected excess ADFIT liability as an  
15 offset to the total company estimated unrecovered net book value of the Dolet Hills Power  
16 Station. Without that offset, the unrecovered balance over the next four years would be  
17 approximately \$30,698,729 per year on a total company basis.<sup>24</sup> The Texas retail portion  
18 of the unrecovered balance over four years would be \$11,341,158.<sup>25</sup> My recommended

---

<sup>23</sup> Schedule CTC-12.

<sup>24</sup> Direct Testimony of Michael A. Baird, Exhibit MAB-4 (Total Net Book Value: \$122,794,917 divided by 4-year amortization = \$30,698,729).

<sup>25</sup> Direct Testimony of Michael A. Baird, Exhibit MAB-4 (Total Net Book Value: \$45,364,633 divided by 4-year amortization = \$11,341,158).



1 annual recovery of \$4,367,445 on a total company basis<sup>26</sup> compares to the \$30,698,729  
2 annual recovery computed by the Company before using the unprotected excess ADFIT as  
3 an offset. My recommendation regarding the unprotected excess ADFIT is for SWEPCO  
4 to refund the unprotected excess ADFIT directly to Texas retail customers, rather than use  
5 the unprotected excess ADFIT as an offset to any other costs. I discuss this issue in more  
6 detail later in my testimony.

7 **Q. WHY HAVE YOU CHOSEN A TWENTY-FIVE YEAR AMORTIZATION**  
8 **PERIOD FOR THE UNRECOVERED NET BOOK VALUE OF THE DOLET**  
9 **HILLS POWER STATION?**

10 A. A 25-year amortization period provides for full recovery of the Dolet Hills Power Station  
11 over the original, useful life approved by the Commission for the Dolet Hills Power  
12 Station.<sup>27</sup> The Dolet Hills Power Station went into commercial operation in 1986, with a  
13 stated 60-year useful life.<sup>28</sup> Based on the original, planned retirement date of 2046,<sup>29</sup> the  
14 Dolet Hills Power Station would have operated for twenty-five years after the now  
15 estimated retirement date of December 31, 2021.<sup>30</sup> Therefore, I recommend that the  
16 Commission use the Dolet Hills Power Station's original retirement date of 2046 to  
17 determine the period over which SWEPCO should be allowed to recover any remaining  
18 capital balances at the time of the early retirement.

---

<sup>26</sup> Schedule CTC-12, (OPUC Recommended Amortization of 25 years).

<sup>27</sup> Attachment G, SWEPCO Response to CARD RFI No. 2-10, Attachment 1 at 18.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> Attachment H, SWEPCO Response to TIEC RFI No. 1-19.

1 **Q. DID SWEPCO PROVIDE JUSTIFICATION FOR THE COMPANY'S EARLY**  
2 **RETIREMENT OF THE DOLET HILLS POWER STATION?**

3 A. SWEPCO stated that its decision to retire the Dolet Hills Power Station by December 31,  
4 2021 is due to the Company's analyses showing that continued operation of the Dolet Hills  
5 Power Station is uneconomical.<sup>31</sup> The Company states that the recoverable lignite reserves  
6 have been depleted at both the Dolet Hills mine and at the Oxbow mine.<sup>32</sup>

7 **Q. WHAT HAS BEEN THE COMMISSION'S PRIOR TREATMENT CONCERNING**  
8 **SWEPCO'S EARLY RETIREMENT OF OTHER GENERATION FACILITIES?**

9 A. In Docket No. 46449, SWEPCO requested approval of the early retirement of Welsh Unit  
10 2. In that proceeding, the Commission allowed SWEPCO to recover the undepreciated  
11 balance of the Welsh Unit 2 but did not allow SWEPCO to earn a return on undepreciated  
12 assets.<sup>33</sup> In addition, the Commission established a period of 24 years for the recovery of  
13 the undepreciated balance of Welsh Unit 2.<sup>34</sup>

14 **Q. WHAT WAS THE JUSTIFICATION FOR THE EARLY RETIREMENT OF**  
15 **WELSH UNIT 2?**

16 A. In Docket No. 46449, the Company stated that its decision to retire Welsh Unit 2 early was  
17 based, in part, on the potential financial impacts to SWEPCO of the costs of environmental  
18 retrofits for all of its fossil fuel plants, including the Dolet Hills, Pirkey, and Welsh Units

---

<sup>31</sup> Direct Testimony of Thomas P. Brice at 6:7-7:2.

<sup>32</sup> *Id.* at 5:18-21, 6:7-9.

<sup>33</sup> Docket No. 46449, Order on Rehearing at Finding of Fact ("FOF") No. 69 (Mar. 19, 2018).

<sup>34</sup> *Id.*, at FOF No. 70 (March 19, 2018).

1 1, 2 and 3 generation facilities.<sup>35</sup> The Company's decision to retire Welsh Unit 2 was based  
2 on the uneconomical costs to retrofit Welsh Unit 2 when compared to retirement. With  
3 respect to the rationale for the early retirement of Welsh Unit 2, the Commission identified  
4 the economic impact of retrofitting Welsh Unit 2, rather than retirement, based on the  
5 following Finding of Fact:

6 62. SWEPCO's credit rating would have been at risk if the Company  
7 undertook the full cost to retrofit Dolet Hills, Flint Creek, Pirkey,  
8 and all three Welsh units . . . .<sup>36</sup>

9 **Q. IN DOCKET NO. 46449, DID THE COMMISSION ALLOW SWEPCO TO**  
10 **RECOVER THE UNDEPRECIATED CAPITAL COSTS FOR WELSH UNIT 2 IN**  
11 **RATES?**

12 A. Yes. The Commission's decision provided for the recovery of the undepreciated capital  
13 costs for Welsh Unit 2 over a period that approximates to the plant's original, planned  
14 retirement date and coincides with the retirement dates of the other two Welsh units that  
15 continued to operate. However, the Commission specifically stated that SWEPCO would  
16 not be allowed to earn a return on a plant that was no longer used and useful for providing  
17 electric service to the Company's customers. The Commission's Order on Rehearing  
18 included the following Findings of Fact:

19 69. Allowing SWEPCO a return of, but not on, its remaining investment  
20 in Welsh unit 2 balances the interests of ratepayers and shareholders  
21 with respect to a plant that no longer provides service.<sup>37</sup>

---

<sup>35</sup> Docket No. 46449, Petition and Statement of Intent at 1.

<sup>36</sup> Docket No. 46449, Order on Rehearing at Finding of Fact ("FOF") No. 62 (Mar. 19, 2018).

<sup>37</sup> *Id.* at FOF No. 69.

1                   70. It is reasonable for SWEPCO to recover the remaining  
2                   undepreciated balance of Welsh unit 2 over the 24-year remaining  
3                   lives of Welsh units 1 and 3.<sup>38</sup>

4   **Q. ARE YOU RECOMMENDING A SIMILAR BASE RATE TREATMENT FOR THE**  
5                   **DOLET HILLS POWER STATION AS THE COMMISSION ADOPTED IN**  
6                   **DOCKET NO. 46449 FOR WELSH UNIT 2?**

7   A. Yes. As with the treatment adopted by the Commission for Welsh Unit 2, I am  
8                   recommending that the undepreciated balance of the Dolet Hills Power Station be  
9                   recovered in base rates over a period that matches its original useful life. Also, just as was  
10                  adopted by the Commission in Docket No. 46449 for Welsh Unit 2, I am recommending  
11                  that base rates exclude a return on the Dolet Hills Power Stations assets.

12   **Q. HAS SWEPCO PREVIOUSLY PROPOSED THAT THE USEFUL LIFE OF THE**  
13                  **DOLET HILLS POWER STATION BE REDUCED FROM 60 YEARS?**

14   A. Yes. In SWEPCO's rate and fuel reconciliation case, Docket No. 40443,<sup>39</sup> the Company  
15                  requested that the Commission reduce the useful life of the Dolet Hills Power Station from  
16                  60 years to 40 years. In support of the Company's request, SWEPCO cited to a settlement  
17                  adopted by the Louisiana Public Service Commission ("LPSC") that required SWEPCO  
18                  and the Central Louisiana Electric Company ("CLECO") to extend the service life of the  
19                  Dolet Hills Power Station through 2026 for purposes of depreciating the Dolet Hills Power  
20                  Station assets. SWEPCO's proposal was not adopted by the Commission. The  
21                  Administrative Law Judges ("ALJs") came to the following conclusions:

---

<sup>38</sup> *Id.* at FOF No. 70.

<sup>39</sup> *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing (Mar. 6, 2014).

1 The ALJs do not find that SWEPCO has supported its proposal to reduce  
2 the life span of the Dolet Hills Plant from 60 years to 40 years . . . .  
3 Additionally, the ALJs agree with Cities that the settlement approved by the  
4 LPSC is not binding in this case. Furthermore, that settlement did not  
5 determine the service life for the unit; it required only that SWEPCO and  
6 CLECO extend the service life through 2026 at a minimum for depreciation  
7 purposes. The language suggests a minimum service life, not the maximum  
8 service life.<sup>40</sup>

9 **Q. HOW DOES YOUR RECOMMENDATION TO ESTABLISH A DOLET HILLS**  
10 **RATE RIDER EFFECTIVELY TREAT THE ISSUE OF RETURN ON A PLANT**  
11 **THAT IS NOT CURRENTLY RETIRED?**

12 A. Establishment of a Dolet Hills Rate Rider affords the Company recovery of costs related  
13 to the operation of the Dolet Hills Power Station for the period that the Dolet Hills Power  
14 Station continues to provide electric service to the Company's Texas retail customers. The  
15 Dolet Hills Rate Rider includes: (1) a return on the net-book value of the plant assets at the  
16 time the rate rider becomes effective, and (2) the annual O&M and tax-related costs that  
17 would normally be included in base rates. The Dolet Hills Rate Rider will be discontinued  
18 when Dolet Hills Power Station no longer provides electric service to the Company's Texas  
19 retail customers. The base rates do not have to be revised to remove the return and other  
20 O&M costs related to the Dolet Hills Power Station. The only remaining costs in base rates  
21 would be the annual amortization of the undepreciated Dolet Hills Power Station assets  
22 based on a 25-year amortization period.

---

<sup>40</sup> Docket No. 40443, Proposal for Decision ("PFD") at 175 (May 20, 2013).

1                    **B.        Adjustment Related to the Dolet Hills Power Station**

2                                    **Lignite Mining Costs**

3    **Q.        DO YOU RECOMMEND ADDITIONAL ADJUSTMENTS TO THE COMPANY'S**  
4                    **REVENUE REQUIREMENT BASED ON THE TREATMENT OF INVESTMENT**  
5                    **IN THE LIGNITE MINING OPERATIONS SERVING THE DOLET HILLS**  
6                    **POWER STATION?**

7    A.        Yes. I recommend two adjustments to SWEPCO's requested revenue requirement. First,  
8                    I recommend that the Oxbow Mine Reserves investment of \$16,576,181<sup>41</sup> be excluded  
9                    from rate base, and therefore, exclude any additional return on this investment. The Texas  
10                  retail portion of the Oxbow Mine Reserves investment is \$6,126,868.<sup>42</sup> With respect to the  
11                  recovery of the Oxbow Mine Reserves investment, I recommend that the test year per book  
12                  balance be amortized through 2046 to match my recommended treatment for recovery of  
13                  the undepreciated capital asset balances related to the Dolet Hills Power Station. As shown  
14                  on Schedule CTC-5, I have removed the entire asset from rate base and have developed an  
15                  amortization expense of approximately \$663,047 based on a 25-year amortization period.  
16                  The Texas retail annual amortization of the Oxbow Mine Reserves investment is  
17                  \$245,075.<sup>43</sup>

18   **Q.        PLEASE EXPLAIN YOUR SECOND RECOMMENDED ADJUSTMENT**  
19                    **CONCERNING LIGNITE-RELATED COSTS.**

---

<sup>41</sup> RFP, Schedule B-1.1.

<sup>42</sup> *Id.*

<sup>43</sup> Schedule CTC-5 (OPUC Recommended Adjustment to Amortization Expense).

1 A. I recommend that the Dolet Hills Power Station Lignite Company (“DHLC”) equity and  
2 related taxes expense reported in Federal Energy Regulatory Commission (“FERC”)  
3 Account No. 501 be disallowed and removed from the total company and Texas retail  
4 revenue requirement. The impact of this recommendation is to reduce the total company  
5 O&M expense by \$1,418,466, with a Texas retail adjustment of \$524,292.<sup>44</sup>

6 **1. Oxbow Mine Reserves Investment**

7 **Q. PLEASE EXPLAIN WHY YOU RECOMMEND THAT THE COMPANY BE**  
8 **ALLOWED TO RECOVER ITS INVESTMENT IN THE OXBOW MINE**  
9 **RESERVES EVEN THOUGH THE OXBOW MINE RESERVES WILL NOT**  
10 **CONTINUE TO PROVIDE SERVICE TO THE COMPANY’S CUSTOMERS IN**  
11 **THE FUTURE.**

12 A. In Docket No. 40443, the Commission determined that SWEPCO’s portion of the  
13 acquisition costs for the Oxbow Mine Reserves was prudent and should be included in  
14 rates.<sup>45</sup> The amount of the investment originally determined to have been prudent was  
15 \$14.53 million.<sup>46</sup> In Docket No. 46449, the Oxbow Mine Reserves investment included in  
16 rate base was \$18.35 million,<sup>47</sup> with a finding of fact by the Commission that the mining  
17 operations for the Dolet Hills Power Station were moving to the Oxbow Mine Reserves.<sup>48</sup>

---

<sup>44</sup> Schedule CTC-11.

<sup>45</sup> Docket No. 40443, Order on Rehearing at FOF No. 141 (Mar. 6, 2014).

<sup>46</sup> *Id.*

<sup>47</sup> Docket No. 46449, PFD, Attachment A, Schedule III (Sep. 21, 2017).

<sup>48</sup> Docket No. 46449, Order on Rehearing at FOF No. 139 (Mar. 19, 2018).

1 Because the Commission made a finding of prudence in the Oxbow Mine Reserves  
2 investment in Docket No. 40443, and did not render any reversal of that decision in Docket  
3 No. 46449, it is my position that the Company should be able to recover its portion of the  
4 investment in the Oxbow Mine Reserves in rates. However, because operations at the  
5 Oxbow mine have been discontinued, and the Oxbow Mine Reserves will not provide any  
6 additional lignite to the Dolet Hills Power Station beyond that which has already been  
7 mined,<sup>49</sup> the Oxbow Mine Reserves investment should be excluded from the computation  
8 of any return on the Oxbow Mine Reserves asset.

9 **Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE FOR SWEPCO'S**  
10 **INVESTMENT IN THE OXBOW MINE RESERVES?**

11 A. It is my understanding that SWEPCO and CLECO acquired the Oxbow Mine Reserves in  
12 2009 to ensure the availability of additional lignite reserves for the continued operation of  
13 the Dolet Hills Power Station.<sup>50</sup> In Docket No. 40443, SWEPCO represented that the  
14 acquisition of the Oxbow Mine Reserves would ensure economic operation of the Dolet  
15 Hills Power Station through at least 2026.<sup>51</sup>

16 **Q. IN DOCKET NO. 46449, DID THE COMPANY DISCUSS THE CONTINUED USE**  
17 **OF THE OXBOW MINE RESERVES FOR OPERATING THE DOLET HILLS**  
18 **POWER STATION?**

---

<sup>49</sup> See Direct Testimony of Thomas P. Brice at 6.

<sup>50</sup> Docket No. 40443, PFD at 71-72 (May 20, 2013).

<sup>51</sup> *Id.* at 73.



1 A. Yes. In Docket No. 46449, SWEPCO provided a justification for its investment in  
2 environmental retrofits of the Dolet Hills Power Station based on the Company's planned  
3 continued use of the Oxbow Mine lignite reserve.<sup>52</sup>

4 **Q. DID THE COMPANY RAISE ANY ISSUES WITH RESPECT TO THE**  
5 **POSSIBILITY THAT THE RESERVES MAY NOT BE ECONOMICALLY**  
6 **EXTRACTED?**

7 A. No. In fact, the Company provided testimony that the draglines had been moved from the  
8 Dolet Hills lignite reserve to the Oxbow Mine lignite reserves for continued operation of  
9 the Dolet Hills Power Station, and because of the distance to the plant, the Company needed  
10 a higher lignite inventory in base rates.<sup>53</sup>

11 **Q. PLEASE EXPLAIN HOW SWEPCO USED THE OXBOW MINE INVESTMENT**  
12 **IN SUPPORT OF ITS DECISION TO RETROFIT THE DOLET HILLS POWER**  
13 **STATION.**

14 A. In Docket No. 46449, the Company requested a prudence finding for the costs the  
15 Company incurred to retrofit the Dolet Hills Power Station and included the acquisition of  
16 the Oxbow Mine Reserves as a factor in making the decision to retrofit, rather than retire  
17 the Dolet Hills Power Station. In Rebuttal Testimony filed in Docket No. 46449, SWEPCO  
18 witness Mr. Thomas P. Brice stated the following:

19 SWEPCO's decision to retrofit Dolet Hills, and thereby extend its  
20 availability to serve customers, was a natural extension of recent analysis,  
21 deliberations, and regulatory proceedings leading to the decision to acquire  
22 new lignite reserves needed to cost effectively extend plant operations.

---

<sup>52</sup> Docket No. 46449, Order on Rehearing at 4.

<sup>53</sup> *Id.* FOF No. 139.

1           These activities culminated in SWEPCO's decision to make the Oxbow  
2           Mine Acquisition.<sup>54</sup>

3   **Q.    DID THE COMMISSION FIND THAT THE COSTS TO RETROFIT THE DOLET**  
4   **HILLS POWER STATION WERE PRUDENT?**

5   A.    Yes. Based, in part, on the representations by the Company that the Oxbow Mine Reserves  
6        “. . . were sufficient to allow the plant to operate for its remaining expected service life,”<sup>55</sup>  
7        the Commission found that it was prudent for SWEPCO to retrofit the Dolet Hills Power  
8        Station and thus, further extend the useful life of the Dolet Hills Power Station. In the  
9        Commission's Order on Rehearing, the Commission provided the following:

10           The Commission also finds that an important element for consideration by  
11           Mr. Franklin and SWEPCO was the fact that in 2009, the Louisiana Public  
12           Service Commission and the Arkansas Public Service Commission  
13           approved the acquisition of the Oxbow Mine Reserves. The coal mine  
14           providing fuel for Dolet Hills was becoming depleted, so that either a new  
15           source of coal had to be obtained or the plant had to be retired. A study was  
16           conducted to consider whether to obtain a new source of coal or to retire  
17           Dolet Hills and replace it with a new natural-gas-fired combined-cycle unit.  
18           Although this study was not performed in the 2012 time period of the  
19           decision to retrofit the plant, the study supported decisions by this  
20           Commission and other state commissions to acquire new coal reserves and  
21           continue operating the Dolet Hills plant. This is yet another factor that was  
22           considered by Mr. Franklin and SWEPCO in deciding to retrofit the Dolet  
23           Hills power plant. As with the other elements, this fact alone should not  
24           have been determinative of the ultimate decision. However, considering all  
25           of the information available to Mr. Franklin and SWEPCO at the time of  
26           the decision, the Commission finds they came to the decision to retrofit  
27           Dolet Hills in a prudent manner.<sup>56</sup>

---

<sup>54</sup> Docket No. 46449, Rebuttal Testimony of Mr. Thomas P. Brice at 2-3 (May. 19, 2017).

<sup>55</sup> *Id* at 4.

<sup>56</sup> Docket No. 46449, Order on Rehearing at 4 (Mar. 19, 2018).

1   **Q.   HOW HAS COMMISSION PRECEDENT AFFECTED YOUR CURRENT**  
2       **RECOMMENDATION TO REMOVE THE OXBOW MINE RESERVES**  
3       **INVESTMENT FROM RATE BASE AND ALLOW FOR AN AMORTIZATION OF**  
4       **THE INVESTMENT THROUGH 2046?**

5   A.   It appears from the evidentiary record in Docket No. 40443 that the Commission rendered  
6       a prudence finding on the Oxbow Mine Reserves investment based on SWEPCO's  
7       representations that the acquisition of lignite from the Oxbow Mine Reserves would extend  
8       the useful life of the Dolet Hills Power Station. In Docket No. 46449, the Commission  
9       approved the retrofitting of the Dolet Hills Power Station with the recognition that the  
10      Oxbow Mine Reserves were a key factor in being able to extend the Dolet Hills Power  
11      Station's operations.<sup>57</sup> However, in the current proceeding, the Company has stated that  
12      operations at the Oxbow mine ceased in May 2020 because ". . . all economically  
13      recoverable lignite had been depleted,"<sup>58</sup> and the Company has now made the decision to  
14      retire the Dolet Hills Power Station. The Oxbow mining operations closed approximately  
15      two years after the Rebuttal Testimony of Mr. Brice in Docket No. 46499, where he  
16      provided definitive statements concerning the sufficiency of the reserves. Ratepayers  
17      should not be responsible for any return on an investment that is not used and useful in  
18      providing electric service to the Company's customers.<sup>59</sup> Additionally, any recovery of the  
19      Oxbow Mine Reserves investment should only be for the per-book investment as of the

---

<sup>57</sup> *Id*

<sup>58</sup> Direct Testimony of Thomas P. Brice at 6.

<sup>59</sup> See Attachment I, SWEPCO Response to Commission Staff RFI No. 5-60.

1 end of the test year and for the same amortization period as the Dolet Hills Power Station,  
2 which the Oxbow Mine Reserves was supposed to serve.

3 **2. DHLC Equity and Related Taxes**

4 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE DHLC EQUITY AND**  
5 **RELATED TAXES EXPENSE THAT SWEPCO INCLUDED IN FERC ACCOUNT**  
6 **NO. 501.**

7 A. Based on the Company's response to Commission Staff RFI No. 5-61, SWEPCO has  
8 included the return on equity and associated income taxes on the return concerning the  
9 DHLC initial capitalization. The amount included in this proceeding is \$1,418,666 on a  
10 total company basis and \$524,292 for Texas retail operations.<sup>60</sup> I have removed this test  
11 year amount from FERC Account No. 501, because DHLC will no longer provide mining  
12 services to the Dolet Hills Power Station.<sup>61</sup> In an article published by S&P Global Market  
13 Intelligence, SWEPCO provided the following written statement:

14 In March 2020, it was determined that DHLC would not proceed developing  
15 additional mining areas for future extraction and management notified a  
16 substantial portion of its workforce that employment will permanently end  
17 in June 2020. Based on these actions, management has revised the  
18 estimated useful life of many of DHLC's assets to June 2020 to coincide  
19 with the date at which extraction is expected to be discontinued.<sup>62</sup>

---

<sup>60</sup> Direct Testimony of Michael A. Baird at 35; Schedule CTC-11.

<sup>61</sup> Schedule CTC-10.

<sup>62</sup> SWEPCO, CLECO eye 2021 retirement of Dolet Hills coal plant in Louisiana, Darren Sweeney (May 13, 2020) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/swepco-cleco-eye-2021-retirement-of-dolet-hills-coal-plant-in-louisiana-58612640>.

1 Therefore, any costs related to DHLC operations should not be included in the total  
2 company and Texas retail revenue requirement.

3 **C. Development of a Rate Rider for the Dolet Hills Power Station**

4 **Q. WHAT ARE THE COST COMPONENTS THAT YOU RECOMMEND FOR**  
5 **INCLUSION IN A SEPARATE RATE RIDER FOR THE DOLET HILLS POWER**  
6 **STATION EXPENSES?**

7 A. As shown on Schedule CTC-3A, I recommend the net book value of the Dolet Hills Power  
8 Station, projects closed to plant in service through January 2021, and an average available  
9 lignite inventory be included in the Dolet Hills Rate Rider for purposes of computing a rate  
10 base on which a return would be computed and included in the Dolet Hills Rate Rider. The  
11 rate of return should be that which is ultimately approved in this proceeding. In addition,  
12 I have added annual O&M expense, property insurance,<sup>63</sup> and ad valorem taxes<sup>64</sup> based on  
13 the actual test year expense. My recommended annual depreciation expense for the Dolet  
14 Hills Power Station assets is based on the current depreciation rates as represented by the  
15 Company.<sup>65</sup> The depreciation rates were applied to the gross book value of the Dolet Hills  
16 Power Station assets as of June 2020 and applied to the plant added after June 2020 based  
17 on a half-year convention for determining depreciation expense. Finally, the Dolet Hills  
18 Rate Rider would include the computation of the appropriate Texas gross margin tax and  
19 federal income taxes.

---

<sup>63</sup> Attachment Z, SWEPCO Response to Commission Staff RFI No. 5-57.

<sup>64</sup> Attachment F, SWEPCO Response to Commission Staff RFI No. 5-9.

<sup>65</sup> Attachment J, SWEPCO Response to OPUC RFI No. 9-2.

1 **Q. GIVEN THAT SWEPCO ESTIMATES THE DOLET HILLS POWER STATION**  
2 **WILL RETIRE BY DECEMBER 31, 2021, HOW DID YOU DETERMINE THE**  
3 **APPROPRIATE AMOUNT OF LIGNITE INVENTORY TO INCLUDE IN THE**  
4 **DOLET HILLS RATE RIDER?**

5 A. In SWEPCO's Confidential Response to OPUC RFI No. 5-1, the [REDACTED]  
6 [REDACTED]  
7 [REDACTED].<sup>66</sup> In addition, SWEPCO provided the actual tons of  
8 lignite in inventory for January 2021 in response to OPUC RFI No. 9-6.<sup>67</sup> I developed an  
9 average lignite inventory [REDACTED]  
10 [REDACTED].

11 **Q. ON WHAT BASIS DID YOU VALUE THE LIGNITE INVENTORY?**

12 A. The Company provided the [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED] My recommended computation results in  
16 a lignite inventory value of \$22,663,008 on which I recommend SWEPCO earn a return  
17 only during the actual operations of the Dolet Hills Power Station.

18 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE [REDACTED]**  
19 **[REDACTED] RATHER THAN THE COST PER TON SHOWN**  
20 **ON SWEPCO'S RESPONSE TO OPUC RFI NO. 9-6.**

---

<sup>66</sup> Attachment K, SWEPCO Response to OPUC RFI No. 5-1.

<sup>67</sup> Attachment L, SWEPCO Response to OPUC RFI No. 9-6.

1 A. In review of the average monthly inventory values from June 2020 through January 2021,  
2 the cost per ton of lignite for the Dolet Hills Power Station more than doubled. In my  
3 opinion, the Company has not met its burden of proof to show that the increase in the value  
4 of the lignite inventory is reasonable to include in rates. For example, SWEPCO's  
5 proposed lignite inventory value for the Dolet Hills Power Station in the RFP is  
6 \$28,528,383.<sup>68</sup> SWEPCO's response to OPUC RFI No. 9-6 shows a January inventory  
7 value of \$105,435,577.<sup>69</sup> Such a significant increase in price is not reasonable to pass on  
8 to the Company's Texas retail customers without a prudence finding for the lignite fuel  
9 costs.

10 **Q. BASED ON YOUR RECOMMENDED CALCULATIONS, WHAT IS THE DOLET**  
11 **HILLS POWER STATION REVENUE REQUIREMENT FOR CONTINUED**  
12 **OPERATIONS IN 2021?**

13 A. As shown on Schedule CTC-3A, an annual revenue requirement for continuing to operate  
14 the Dolet Hills Power Station would be approximately \$36.19 million on a total company  
15 basis. For the Texas retail operation, the annual cost to operate the Dolet Hills Power  
16 Station is estimated to be approximately \$13.37 million. Mr. Tony Georgis has computed  
17 the associated rates by customer class for the Dolet Hills Rate Rider which would only be  
18 charged for each month the Dolet Hills Power Station is in operation.<sup>70</sup> Upon retirement,  
19 the Dolet Hills Power Station Rate Rider would no longer be charged to the Company's  
20 Texas retail customers, and base rates would only include the amortization of the

---

<sup>68</sup> RFP, WP B-1.5.7.

<sup>69</sup> Attachment L, SWEPCO Response to OPUC RFI No. 9-6.

<sup>70</sup> Direct Testimony of Mr. Tony Georgis at 11.

1       undepreciated Dolet Hills Power Station at the time of retirement, and the amortization of  
2       the Oxbow Mine Reserves investment.

3           **V.       RECOMMENDED ADJUSTMENTS TO LABOR-RELATED**  
4                           **EXPENSE**

5           **A.       Annualization of Base Payroll Expense for SWEPCO and AEPSC**

6   **Q.    PLEASE EXPLAIN SWEPCO'S ADJUSTMENT TO ANNUALIZE BOTH THE**  
7       **COMPANY'S DIRECT BASE PAYROLL AND PAYROLL-RELATED CHARGES**  
8       **FROM AEPSC.**

9   A.   For individuals employed directly by SWEPCO ("SWEPCO employees"), the Company  
10       proposes to apply a salary increase of 3.5% to the test year end base payroll expense, which  
11       results in an overall increase of \$2,143,713.<sup>71</sup> For the individuals employed by AEPSC  
12       and who charge a portion of their respective labor-related costs to SWEPCO ("AEPSC  
13       employees"), the Company included an increase of AEPSC charges in the amount of  
14       \$3,804,876 based on AEPSC headcount as of the end of the test year.<sup>72</sup>

15 **Q.    DO YOU AGREE WITH THE COMPANY'S PROPOSED ADJUSTMENT TO**  
16 **BASE PAYROLL EXPENSE?**

17 A.   No. The annualization of base payroll as of the end of the test year does not appear to be  
18       representative of the level of expense on a going forward basis. In response to Commission  
19       Staff RFI No. 5-24, SWEPCO stated that the Company offered a retirement incentive

---

<sup>71</sup> Direct Testimony of Michael A. Baird at 21; RFP, Schedule A-3.1.

<sup>72</sup> Direct Testimony of Brian J. Frantz at 12, Exhibit BJF-6A.



1 package to certain SWEPCO and AEPSC employees between June 8, 2020 and July 6,  
2 2020. According to the Company, a total of 190 employees, (one SWEPCO employee and  
3 189 AEPSC employees) accepted the retirement incentive package. Because the retirement  
4 incentive package was offered after the test year, and because there was a material number  
5 of employees who accepted the retirement incentive package, the employee headcount at  
6 the end of the test year is no longer an appropriate headcount on which to annualize base  
7 payroll expense.

8 **Q. WHAT LEVEL OF BASE PAYROLL DO YOU RECOMMEND?**

9 A. In response to Commission Staff RFI No. 5-27, SWEPCO provided its most recent payroll  
10 annualized for both SWEPCO employees and AEPSC employees. As explained by the  
11 Company, SWEPCO “repeated the same process as was done for proforma adjustment  
12 calculations”<sup>73</sup> for annualized payroll at test year end. As requested by Commission Staff,  
13 the Company used the headcount and associated salaries as of October 31, 2020.<sup>74</sup> For the  
14 SWEPCO employees, the adjustment to test year for the total company is slightly greater  
15 than the annualization based on test year end salaries adjusted for a planned pay raise. The  
16 October 31, 2020 annualized base pay already includes the actual pay raise. As shown on  
17 Schedule CTC-7, my recommendation is to increase the SWEPCO direct base payroll for  
18 the total company by approximately \$544,300, which increases the Texas retail expense by  
19 \$199,282.<sup>75</sup>

---

<sup>73</sup> Attachment E, SWEPCO Response to Commission Staff RFI No. 5-27.

<sup>74</sup> *Id.*

<sup>75</sup> Schedule CTC-7, Schedule CTC-7A (by FERC account).

1 For AEPSC employees, annualization of AEPSC payroll billed to SWEPCO as of  
2 October 31, 2020 results in a significant reduction to the amount of AEPSC payroll billed  
3 to SWEPCO that was originally proposed by the Company. Using the October 31, 2020  
4 annualization of AEPSC payroll billed to SWEPCO does the following: 1) eliminates  
5 SWEPCO's proposed increase of \$3.80 million to test year expense for base payroll, and  
6 2) reduces the test year per book base pay charges from AEPSC by an additional \$675,600.  
7 This yields a total reduction of approximately \$4,480,512 (\$3,804,876 + \$675,636) to the  
8 Company's proposed adjustment to AEPSC payroll billed to SWEPCO.<sup>76</sup> As I previously  
9 testified, there were 189 AEPSC employees who accepted the retirement incentive  
10 package, which appears to be the reason for the reduction in annualized AEPSC base pay  
11 as of October 31, 2020. SWEPCO's proposed annualization of payroll at test year end  
12 does not reflect the early retirement of these AEPSC employees, and therefore, is not based  
13 on known and measurable changes. The impact to Texas retail operations is a reduction of  
14 \$1,686,106.

15 **Q. DOES USE OF THE OCTOBER 31, 2020 PAYROLL ENSURE THAT THE BASE**  
16 **PAY ASSOCIATED WITH ALL OF THE EMPLOYEES WHO CHOSE TO**  
17 **ACCEPT THE RETIREMENT INCENTIVE PACKAGE HAS BEEN REMOVED**  
18 **FROM THE COMPANY'S REVENUE REQUIREMENT?**

19 A. No. In OPUC RFI No. 6-2, I requested that the Company confirm the October 31, 2020  
20 level of payroll already excluded those employees who chose the retirement incentive  
21 package. In response to OPUC RFI No. 6-2, the Company stated that it could not provide

---

<sup>76</sup> Schedule CTC-7, Schedule CTC-7B (by FERC account).

1 such assurances because the vacated positions could have been backfilled or some of the  
2 employees had yet to leave the company.<sup>77</sup> However, because the October 31, 2020  
3 annualization: (1) already incorporates the annual base pay increase for 2020; (2) is  
4 subsequent to the retirement offer period of June 8, 2020 through July 6, 2020; and (3) is  
5 the latest annualization provided through discovery, which is likely to include at least some  
6 of the effects of the departure of 189 AEPSC employees, I have used the October 31, 2020  
7 annualization period to compute my recommended adjustment to test year base payroll.

8 **B. Adjustment to Annual Incentive Compensation**

9 **Q. HOW HAS SWEPCO CALCULATED THE COMPANY'S PROPOSED AMOUNT**  
10 **OF SHORT-TERM INCENTIVE ("STI") COMPENSATION FOR INCLUSION IN**  
11 **THE TOTAL COMPANY AND TEXAS RETAIL REVENUE REQUIREMENT?**

12 A. SWEPCO has made two separate adjustments to the test year STI compensation. The first  
13 adjustment is a reduction of \$3,866,220 to the STI compensation awarded to SWEPCO  
14 employees.<sup>78</sup> The second adjustment is a reduction of \$5,487,878 to the amount of STI  
15 compensation billed to SWEPCO by AEPSC during the test year.<sup>79</sup> SWEPCO represents  
16 that each of these two adjustments sets the STI compensation at target performance  
17 percentages and correctly removes all STI compensation that was awarded or is expected  
18 to be awarded based on financial performance measures in accordance with Commission  
19 precedent, which requires the exclusion of STI compensation awarded for financially-

---

<sup>77</sup> Attachment M, SWEPCO Response to OPUC RFI No. 6-2.

<sup>78</sup> Direct Testimony of Michael A. Baird, Exhibit MAB-2.

<sup>79</sup> Direct Testimony of Brian J. Frantz, Exhibit BJF-6A.

1 based performance measures on the basis that financially-based performance measures  
2 provide a benefit to shareholders and not to ratepayers.

3 **Q. DO YOU AGREE WITH SWEPCO'S CALCULATION FOR THE COMPANY'S**  
4 **PROPOSED ADJUSTMENTS TO THE TEST YEAR LEVEL OF STI**  
5 **COMPENSATION?**

6 A. No. The methodology used by SWEPCO to compute the Company's proposed adjustments  
7 to the test year level of STI compensation is flawed and does not provide a level of STI  
8 compensation based on known and measurable expenses at the time of the filing or within  
9 a reasonable period after the filing date. As shown on Schedule CTC-8, I recommend that  
10 the Company's proposal for STI compensation awarded to SWEPCO employees be  
11 reduced by an additional \$1,677,713.<sup>80</sup> On Schedule CTC-10, I have computed an  
12 additional \$849,837 reduction to the STI compensation billed by AEPSC to SWEPCO.<sup>81</sup>  
13 The impact to Texas retail expense for these two adjustments is a reduction to STI  
14 compensation expense in the amount of \$939,066.<sup>82</sup>

15 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PURPOSE OF THE STI**  
16 **COMPENSATION PLAN OFFERED TO SWEPCO AND AEPSC EMPLOYEES.**

17 A. As a component of an employee's total compensation, SWEPCO's parent company,  
18 American Electric Power Company ("AEP"), offers all its employees at SWEPCO and  
19 AEPSC the opportunity to earn incentive compensation pursuant to both the overall

---

<sup>80</sup> Schedule CTC-8 and Schedule CTC-9.

<sup>81</sup> Schedule CTC-10.

<sup>82</sup> Schedules CTC-9 and CTC-10 [ $\$617,854 + 321,212 = 939,066$ ].

1 performance of AEP and the performance of the individual business units.<sup>83</sup> SWEPCO's  
2 STI compensation plan applies to all SWEPCO employees, including union employees.  
3 AEPSC employees are eligible to receive STI compensation pursuant to their respective  
4 performance measures.<sup>84</sup>

5 **1. STI Compensation for SWEPCO Employees**

6 **Q. PLEASE EXPLAIN HOW SWEPCO'S COMPUTATION OF ADJUSTED STI**  
7 **COMPENSATION IS FLAWED.**

8 A. In my review of the Company's proposed adjustments to STI compensation awarded to  
9 SWEPCO employees, I identified two major issues:

- 10 1. Some of the STI compensation included in the adjustment was not known  
11 and measurable at the time of the filing or within a reasonable period  
12 subsequent to the filing ; and
- 13 2. The computation of the adjustment to STI compensation paid to union  
14 employees is incorrect.

15 **Q. ARE THE COMPANY'S ADJUSTMENTS TO STI COMPENSATION EXPENSE**  
16 **BASED ON STI COMPENSATION THAT WAS AWARDED DURING THE TEST**  
17 **YEAR?**

18 A. They are, in part. However, the Company proposes to also include an amount of STI  
19 compensation that was *expected* to be awarded in March 2021. The Company's  
20 calculations are based on 75%, or nine months, of the STI compensation that was awarded  
21 for 2019 performance (awarded March 2020) and 25% of what was expected to be awarded

---

<sup>83</sup> Direct Testimony of Andrew R. Carlin at 30-31.

<sup>84</sup> *Id.*

1 for 2020 performance (to be awarded March 2021). When asked about the timing for  
2 awarding the 2020 STI compensation, SWEPCO provided the following response:

3 . . .the payment of 2020 STI awards has been scheduled for March 5, 2021,  
4 which is in accordance with AEP standard process. Incentive compensation  
5 is accrued monthly and trued up each month to the Company's then current  
6 estimate of the amount to be paid. As of November 30, 2020, the  
7 Company's estimated payout was 85% of the target level . . .<sup>85</sup>

8 **Q. IN THE COMPANY'S ADJUSTMENT TO STI COMPENSATION, HAS SWEPCO**  
9 **INCLUDED THE EXPECTED PAYMENT FOR 2020 PERFORMANCE AT THE**  
10 **TOTAL AMOUNT EXPECTED TO BE AWARDED?**

11 A. No. The Company's adjustment to both 2019 STI compensation and the estimated 2020  
12 STI compensation assumes that all employees are awarded 100% of the target STI  
13 compensation payouts even without knowing what the total STI compensation payouts will  
14 be for the 2020 performance year. However, as stated above, as of November 30, 2020,  
15 the Company's achievement was only at 85% of the target. The Company's computation  
16 that assumes that all employees will receive 100% of the target for 2020 was not based on  
17 a known and measurable STI compensation payout at the time of the filing, or even up until  
18 the STI compensation was actually awarded in 2021.<sup>86</sup> Although the Company responded  
19 on March 30, 2021 that the 2020 STI compensation was awarded based on 156.9% of  
20 target, an award that is approximately a year beyond the test year end should not be  
21 considered. In my opinion, none of the estimated 2020 STI compensation should be  
22 included in the total company and Texas retail revenue requirement. Therefore, any

---

<sup>85</sup> See Attachment N, SWEPCO Response to OPUC RFI No. 6-3.

<sup>86</sup> See Attachment AD, SWEPCO Response to OPUC RFI No. 11-6.

1 adjustment to the test year amount of STI compensation should be based solely on the  
2 known STI compensation awarded as of the end of the test year. As shown on Schedule  
3 CTC-8, my recommended adjustment: (1) begins with actual STI compensation awarded  
4 to SWEPCO employees in March 2020 set at 100% of the target payout; (2) removes  
5 amounts charged to other co-owners of certain SWEPCO generation assets; (3) removes  
6 STI compensation awarded based on business unit financial performance measures; and  
7 (4) removes 50% of the financially-based funding mechanism (50% of a 70% funding  
8 mechanism; or 35%) that is used to “trigger” all STI compensation awards.<sup>87</sup>

9 **Q. PLEASE EXPLAIN YOUR CONCERN WITH SWEPCO’S PROPOSED**  
10 **TREATMENT OF THE STI COMPENSATION AWARDED TO UNION**  
11 **EMPLOYEES.**

12 A. As I have testified, SWEPCO set all STI compensation based on 100% of the target  
13 payouts, and then removed amounts the Company determined to be based on financial  
14 performance measures. However, with respect to the STI compensation paid to union  
15 employees, the Company only adjusted these payouts to 100% of the target payout without  
16 any removal of STI compensation awarded based on financial performance.<sup>88</sup> The  
17 argument made by the Company is that STI compensation for union employees was  
18 collectively bargained and the full target level of union employee STI compensation is  
19 presumed reasonable pursuant to Section 14.006 of the Public Utility Regulatory Act  
20 (“PURA”).<sup>89</sup>

---

<sup>87</sup> Direct Testimony of Michael A. Baird, at 21-22.

<sup>88</sup> Attachment O, SWEPCO Response to OPUC RFI No. 1-15, Attachment 3.

<sup>89</sup> Direct Testimony of Andrew R. Carlin, Executive Summary at 1.

1 **Q. DO YOU AGREE THAT FOR RATEMAKING PURPOSES, THE STI**  
2 **COMPENSATION AWARDED TO UNION EMPLOYEES CAN JUSTIFIABLY**  
3 **INCLUDE STI COMPENSATION AWARDED ON THE BASIS OF FINANCIAL**  
4 **PERFORMANCE MEASURES?**

5 A. No. SWEPCO's reliance on PURA § 14.006 to justify inclusion of STI compensation  
6 awarded to union employees based on financial performance measures is, in my opinion,  
7 overstated. PURA § 14.006 provides that the Commission will not interfere with any  
8 employee-related wages and benefits that are based on a collective bargaining agreement  
9 and that such wage rate or benefit is presumed reasonable.<sup>90</sup> Based on my review of the  
10 bargaining agreement between AEP (including SWEPCO) and the International  
11 Brotherhood of Electrical Workers, which was provided in response to OPUC RFI No.2-  
12 11, the only agreement between the parties is that the union employees can participate in  
13 the AEP incentive compensation program. Specifically, in Article X, Section 2 of the  
14 agreement effective from April 1, 2018 through March 31, 2021, the parties agree  
15 "[e]mployees shall be permitted to participate in the American Electric Power Company  
16 Wide Incentive Plan (CIP)."<sup>91</sup>

17 The agreement does not provide for any guaranteed amounts or other descriptions  
18 that would lead to the conclusion that an adjustment to STI compensation for ratemaking  
19 purposes would be a violation of PURA § 14.006. The terms of Article X, Section 2 are  
20 no different from providing the same benefit to any of SWEPCO employees who are

---

<sup>90</sup> PURA § 14.006

<sup>91</sup> Attachment P, SWEPCO Response to OPUC RFI No. 2-11, Attachment 1 at 52.



1 eligible for STI compensation. Therefore, removal of any STI compensation based on  
2 financial performance measures should be determined for all employees who receive STI  
3 compensation, regardless of union affiliation. Removal of STI compensation that was  
4 awarded based on financial performance measures is a long-standing practice at the  
5 Commission.<sup>92</sup>

6 **Q. TO YOUR KNOWLEDGE, DOES THE BARGAINING AGREEMENT BETWEEN**  
7 **SWEPCO AND THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL**  
8 **WORKERS CONTAIN A GUARANTEE REGARDING THE LEVEL OF**  
9 **FINANCIALLY BASED INCENTIVE COMPENSATION?**

10 **A.** No.<sup>93</sup>

11 **Q. IS IT YOUR POSITION THAT STI COMPENSATION PAID TO EMPLOYEES**  
12 **AFFILIATED WITH A UNION SHOULD BE DENIED?**

13 **A.** No. It is my position that the costs of financially based incentive compensation, in  
14 accordance with well-established Commission precedent, should not be passed on to the  
15 Company's ratepayers. The Company is still free to make contracts with unions and pay  
16 union affiliated employees according to those contracts, as long as STI compensation costs

---

<sup>92</sup> E.g., *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing at Finding of Fact ("FOF") Nos. 129-135 (Mar. 19, 2018); *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 5-6, FOF Nos. 83A-84A (Feb. 23, 2016); *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing at 13, FOF No. 147 (Mar. 6, 2014); *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment*, Docket No. 39896, Order on Rehearing at 5, 7-8, FOF Nos. 60-61, 128-133 (Nov. 2, 2012); *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Order on Rehearing at FOF No. 82 (Mar. 4, 2008); *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840, Order at FOF Nos. 164-70 (Aug. 15, 2005).

<sup>93</sup> See Attachment AE, SWEPCO Response to OPUC RFI No. 11-1.

1           that are based on financial performance measures are not passed on to the Company's  
2           Texas retail ratepayers.

3   **Q.   HAS SWEPCO PROPOSED SIMILAR TREATMENT FOR UNION EMPLOYEE**  
4   **STI COMPENSATION IN PRIOR CASES?**

5   A.   In Docket No. 46449, SWEPCO proposed that union employee STI compensation should  
6           not be adjusted for financially based performance measures. None of the parties to that  
7           proceeding contested the issue, and therefore, no adjustments were made by the  
8           Commission to the Company's proposal.<sup>94</sup>

9   **Q.   PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENT TO**  
10   **SWEPCO'S STI COMPENSATION.**

11   A.   As shown on Schedule CTC-8, I recommend that the amount of STI compensation awarded  
12           to SWEPCO employees that is reasonable to include in rates is \$4,256,071, as compared  
13           to SWEPCO's proposed amount of \$5,933,784, a reduction of \$1,677,713 on a total  
14           company basis. My recommendation is premised on using only the 2019 STI  
15           compensation awards that are known and measurable, and removing the financially based  
16           performance amounts for union employee STI compensation awards from the calculation.  
17           The impact to the Texas retail operations is a total reduction of \$617,854.

---

<sup>94</sup> *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, PFD at 234-235 (Sep. 21, 2017).

1                   **2.       STI Compensation Billed to SWEPCO by AEPSC**

2   **Q.     DID THE COMPANY FOLLOW THE SAME PARAMETERS IN ITS**  
3       **RECOMMENDED ADJUSTMENT TO STI COMPENSATION BILLED TO**  
4       **SWEPCO BY AEPSC?**

5   A.    Based on my understanding of the description provided by SWEPCO witness Mr. Brian  
6       Frantz and his supporting workpapers, the Company's adjustment to the AEPSC STI  
7       compensation also includes the 2020 performance for estimating 2020 STI compensation  
8       that is expected to be paid in 2021.<sup>95</sup> The Company's proposed adjustment also sets the  
9       base amount of STI compensation at 100% of the target payout (assuming 75% for 2020  
10      payment and 25% for expected 2021 payment) and removes both business unit specific  
11      financially based awards and 50% of the funding trigger portion of the awards.<sup>96</sup> Unlike  
12      SWEPCO, AEPSC does not have union employees that receive STI compensation. As I  
13      have testified, the Company's calculation reduces the test year STI compensation billed to  
14      SWEPCO by AEPSC by \$5,487,878 on a total company basis.<sup>97</sup>

15 **Q.     PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENTS TO SWEPCO'S**  
16 **PROPOSED AEPSC STI COMPENSATION FOR INCLUSION IN TOTAL**  
17 **COMPANY AND TEXAS RETAIL REVENUE REQUIREMENT.**

18 A.    As with the STI compensation awarded to SWEPCO employees, I have removed all  
19      impacts of the estimated 2020 STI compensation that at the time of the filing was scheduled

---

<sup>95</sup> Direct Testimony of Brian J. Frantz at 12, Exhibit BJF-18 at 4-5.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

1 to be awarded in March 2021 on the basis that the estimated 2020 STI compensation  
2 amounts were not known and measurable. Therefore, any computations that involve the  
3 estimated 2020 STI compensation have been excluded and only the March 2020 STI  
4 compensation payouts based on 2019 performance have been considered in my  
5 recommended computations. As shown on Schedule CTC-10, using only the March 2020  
6 actual STI compensation award results in an additional reduction of \$849,837 to test year  
7 expense on a total company basis. The impact to Texas retail operations is a reduction to  
8 expense of \$321,212.

9 **C. Severance Pay for SWEPCO and AEPSC Employees**

10 **Q. DOES THE COMPANY PROVIDE SEVERANCE PAY TO EMPLOYEES UNDER**  
11 **CERTAIN CIRCUMSTANCES OF DEPARTURE FROM COMPANY**  
12 **EMPLOYMENT?**

13 A. Yes. During the test year, there was a significant increase in the amount of severance pay  
14 that does not appear to be justified as a normal level of severance pay for inclusion in rates.

15 **Q. PLEASE EXPLAIN WHY THE SEVERANCE PAY DURING THE TEST YEAR IS**  
16 **NOT A NORMAL LEVEL OF SEVERANCE PAY FOR INCLUSION IN RATES.**

17 A. During the test year, SWEPCO recorded approximately \$767,100 of severance paid to  
18 SWEPCO employees who are no longer employed by the Company.<sup>98</sup> Charges to  
19 SWEPCO from AEPSC for severance paid to departing AEPSC employees during the test

---

<sup>98</sup> Attachment Q, SWEPCO Response to Commission Staff RFI No. 5-33, Attachment 2.

1 year was \$1,460,876.<sup>99</sup> Each of these two severance amounts SWEPCO paid during the  
2 test year were significantly larger than severance expenses SWEPCO recorded in either  
3 2017 or 2018.<sup>100</sup> In fact, SWEPCO recorded \$0 severance pay for each of the calendar  
4 years 2017 and 2018. AEPSC charges to SWEPCO for severance pay were less than  
5 \$550,000 for each of those two years.<sup>101</sup> Based on these data points, the level of severance  
6 pay expense during the test year does not represent a normal level of expense on a going  
7 forward basis.

8 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND WITH RESPECT TO**  
9 **SEVERANCE PAY?**

10 A. As shown on Schedule CTC-16, I recommend that the entire test year amount of severance  
11 pay to former SWEPCO employees be removed as an abnormal and non-recurring amount.  
12 For the AEPSC charges to SWEPCO, I recommend that the 2017, 2018, and test year  
13 severance pay charges be averaged. The severance pay average for inclusion in total  
14 company revenue requirement is \$824,300. My recommended adjustment on a total  
15 company basis is a reduction of \$1,403,705<sup>102</sup> to severance pay expense. The impact to  
16 Texas retail operations is a reduction of \$525,497 to severance pay expense.

---

<sup>99</sup> *Id.*, Attachment 1.

<sup>100</sup> Attachment R, SWEPCO Response to Commission Staff RFI No. 5-34, Attachment 2.

<sup>101</sup> *Id.*, Attachment 1.

<sup>102</sup> Schedule CTC-16.

1                   **VI.       RECOMMENDED ADJUSTMENT TO PROPOSED**  
2                                   **STORM RESERVE**

3   **Q.     PLEASE SUMMARIZE THE COMPANY’S REQUEST WITH RESPECT TO THE**  
4           **ESTABLISHMENT OF A SELF-INSURANCE FOR STORM RESERVE AND A**  
5           **FUND FOR MAJOR STORM-RELATED EXPENSES.**

6   A.     According to SWEPCO witness Mr. Gregory S. Wilson, SWEPCO does not currently have  
7           an approved storm reserve as allowed by PURA § 36.064.<sup>103</sup> Using a Monte Carlo  
8           Simulation model, Mr. Wilson recommends including an annual storm expense of  
9           \$799,700, with an additional \$890,000 included in revenue requirement to build a self-  
10          insurance storm reserve with a target amount \$3,560,000.<sup>104</sup>

11 **Q.     DO YOU AGREE WITH MR. WILSON’S ANALYSIS?**

12 A.     Not entirely. Based on the catastrophic storm expenses incurred by SWEPCO since 2000,  
13          the Company’s proposal for the existence of a storm reserve is supported. However, there  
14          are several key components of Mr. Wilson’s Monte Carlo Simulation that should be  
15          adjusted based on SWEPCO’s actual storm-related damages shown on Exhibit GSW-3,<sup>105</sup>  
16          resulting in a reserve with a lower target amount.

17 **Q.     PLEASE EXPLAIN.**

18 A.     Exhibit GSW-3 shows the actual and trended major storm damages from 2000 through the  
19          test year end. As shown, the largest single storm during that period was the 2000 ice storm

---

<sup>103</sup> Direct Testimony of Gregory S. Wilson, Executive Summary at 1.

<sup>104</sup> *Id.*

<sup>105</sup> Direct Testimony of Gregory S. Wilson, Exhibit GSW-3

1 shown to have caused approximately \$14.63 million in damages. The largest single storm  
2 since that time, and as of the end of the test year, was the 2019 storm causing damages of  
3 \$6.41 million (less than half the recorded damages of the 2000 storm). In Mr. Wilson's  
4 Monte Carlo Simulation computations, he used storm damages in numerous iterations of  
5 his annual cost simulations that were significantly higher than either of the two largest  
6 storms experienced by SWEPCO in the 2000-2020 period. In fact, some of the expected  
7 storm damages Mr. Wilson used for his Monte Carlo Simulation computations were more  
8 than \$20 million, well above the high-end cost of the 2000 ice storm.<sup>106</sup>

9 **Q. HOW DID MR. WILSON JUSTIFY THE INCLUSION OF STORM DAMAGES**  
10 **THAT WERE SIGNIFICANTLY GREATER THAN ANY OF THE STORM**  
11 **DAMAGES EXPERIENCED BY SWEPCO?**

12 A. In response to OPUC RFI No. 7-5, Mr. Wilson provided the following explanation:

13 The data from the loss history is used to build a statistical model that give  
14 [sic]an indication of the potential losses from an event. We used 2000  
15 through 2020 for our model, and it produced seven storms that were larger  
16 than the largest storm in the data. That is saying that over the next 5,000  
17 years, if the exposure was the same as it is today, there would be seven  
18 storms larger than the largest in the data.<sup>107</sup>

19 **Q. DO YOU RECOMMEND AN ADJUSTMENT TO THE MONTE CARLO**  
20 **SIMULATION ANALYSIS PRODUCED BY MR. WILSON?**

21 A. Yes. I recommend that the Monte Carlo Simulation model produced by Mr. Wilson be  
22 adjusted to cap all storm damages to the 2019 storm damages of \$6.41 million. Mr. Wilson  
23 has not justified the inclusion of storms that produced damages significantly higher than

---

<sup>106</sup> Attachment S, SWEPCO Response to OPUC RFI No. 4-1.

<sup>107</sup> Attachment T, SWEPCO Response to OPUC RFI No. 7-5.

1 the actual damages SWEPCO has incurred in prior storms.

2 **Q. WHY DO YOU USE THE \$6.4 MILLION STORM DAMAGES AND NOT THE**  
3 **\$14.63 MILLION STORM DAMAGES TO DETERMINE THE CAP FOR STORM**  
4 **DAMAGES?**

5 A. Based on SWEPCO's response to OPUC RFI No. 7-8, the storm damages shown for the  
6 2000 ice storm were estimated and not based on actual losses. Therefore, I have used the  
7 next highest amount that can be supported as actual storm damages.<sup>108</sup>

8 **Q. WHAT IS THE RESULT OF YOUR RECOMMENDED ADJUSTMENT TO THE**  
9 **MONTE CARLO SIMULATION MODEL PROVIDED BY MR. WILSON?**

10 A. The result of my recommended adjustment is an annual recommended storm loss of  
11 \$757,779 or approximately \$41,921 less than the \$799,700 proposed by SWEPCO. With  
12 respect to the storm reserve, I recommend a target reserve of \$3,180,000 as compared to  
13 the \$3,560,000 proposed by SWEPCO; a reduction of \$380,000. Using the four-year  
14 period proposed by the Company to build the storm reserve, the annual difference is  
15 \$95,000. Schedule CTC-13 shows my recommended total annual adjustment of \$136,921  
16 to SWEPCO's proposed \$1,689,700. This adjustment is only related to SWEPCO's Texas  
17 retail operations.

---

<sup>108</sup> Attachment U, SWEPCO Response to OPUC RFI No. 7-8.



1       **VII.       RECOMMENDED DISALLOWANCE OF PROPOSED INCREASE**  
2                   **IN VEGETATION MANAGEMENT EXPENSE**

3   **Q.     WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO VEGETATION**  
4       **MANAGEMENT EXPENSES?**

5   A.     Based on the Company's RFP, SWEPCO proposes to increase the test year Texas retail  
6       vegetation management expense of \$9.57 million to \$14.57 million, an increase of \$5  
7       million.<sup>109</sup> SWEPCO witness Mr. Seidel states that the Company would like to implement  
8       a four-year vegetation management cycle for the distribution system, but the total cost of  
9       doing so is approximately \$38.35 million annually.<sup>110</sup> SWEPCO is not proposing such an  
10      increase at this time, but proposes an annual vegetation management expense that  
11      represents approximately 38% of the cost to perform a four-year vegetation management  
12      cycle.<sup>111</sup>

13   **Q.     DO YOU AGREE THAT THE COMPANY SHOULD BE AUTHORIZED TO**  
14       **INCREASE ITS ANNUAL VEGETATION MANAGEMENT EXPENSE BY \$5**  
15       **MILLION ANNUALLY?**

16   A.     No. The Company has not demonstrated a need for an approximate 52% increase to the  
17       test year vegetation management expense. The Company's primary support was to show  
18       that there had been improvements due to the increased vegetation management expense  
19       authorized by the Commission in Docket No. 46449, but only with respect to

---

<sup>109</sup> Direct Testimony of A. Malcolm Smoak at 6.

<sup>110</sup> Direct Testimony of Drew W. Seidel at 20.

<sup>111</sup> Direct Testimony of Drew W. Seidel at 20 (((\$14.57 million / \$38.35 million) X 100 = %).

1 approximately 3.3% of the total distribution circuit miles. The Company has not shown  
2 that it is necessary to spend an additional \$5 million to achieve a significant difference in  
3 the overall impact to customers for outages caused by vegetation management. Therefore,  
4 I recommend that the Commission disallow the Company's requested increase. This  
5 adjustment is a direct reduction of \$5 million to the Company's requested Texas retail  
6 revenue requirement.

7 **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH SWEPCO'S PROPOSAL TO**  
8 **INCREASE THE COMPANY'S ANNUAL VEGETATION MANAGEMENT**  
9 **EXPENSE BY \$5 MILLION ANNUALLY.**

10 A. In support of the requested \$14.57 million in vegetation management expense, the  
11 Company provided data concerning the improvements to performance of those circuits that  
12 were completely trimmed in 2018 and 2019.<sup>112</sup> According to SWEPCO witness Mr. Seidel,  
13 these improvements related to 11 circuits with approximately 283 circuit miles.<sup>113</sup>  
14 However, a review of the Company's historical System Average Interruption Frequency  
15 Index ("SAIFI") and System Average Interruption Duration Index ("SAIDI") does not  
16 demonstrate that a more than 50% increase in the level of annual vegetation management  
17 spending will produce similar reductions on a system-wide basis as it has for the 11  
18 distribution circuits highlighted by Mr. Seidel. Table 1 shows the annual vegetation  
19 management spending for the last three years and the test year, along with the reported  
20 SAIFI and SAIDI for vegetation-related outages for these time periods.

---

<sup>112</sup> *Id.* at 18.

<sup>113</sup> *Id.*

Table 1

	2017	2018	2019	Test Year
Texas Veg. Expenses <sup>(1)</sup>	\$ 6,025,129	\$ 12,954,922	\$ 9,359,676	\$ 9,568,282
TX VEG SAIFI <sup>(2)</sup>	0.54	0.75	0.73	0.72
TX VEG SAIDI <sup>(2)</sup>	76.40	100.70	123.72	123.88
TX % of Total Veg. Expenses <sup>(1)</sup>	27.39%	41.32%	35.16%	35.34%
Sources:				
(1) SWEPCO Response to CARD RFI No. 2-14 <sup>114</sup>				
(2) SWEPCO Response to CARD RFI No. 2-24 <sup>115</sup>				

As shown in Table 1, the changes in annual vegetation management spending do not necessarily result in corresponding changes to the SAIFI for the distribution system. In Docket No. 46449, the Commission approved SWEPCO's request for \$9.3 million in vegetation management, which included a \$2 million increase to that docket's test year vegetation management expense. In the instant case, the Company spent \$9,568,282.<sup>116</sup> As shown in Table 1, the SAIFI for vegetation-related outages does not track the amount of spending on vegetation management.

The SAIDI has continued to increase since the Company's last rate proceeding, but according to the Company, this increase is due, in part, to the Company's new policies concerning safety limitations on tree trimming activities that have been implemented since 2017.<sup>117</sup> As shown in Table 1, the SAIDI has significantly increased after these changes began in 2017. SWEPCO has not provided any supporting documentation to show how

<sup>114</sup> Attachment V, SWEPCO Response to CARD RFI No. 2-14

<sup>115</sup> Attachment W, SWEPCO Response to CARD RFI No. 2-24.

<sup>116</sup> Attachment X, SWEPCO Response to Commission Staff RFI No. 2-10.

<sup>117</sup> Direct Testimony of Drew W. Seidel at 12.

1 the additional vegetation management spending will impact the duration time for outages  
2 under these new tree trimming policies.

3 Therefore, given that the Company has not demonstrated that a \$5 million increase  
4 to the current test year vegetation management spending will likely have a marked impact  
5 on the Company's SAIFI and SAIDI, I recommend that the Company's vegetation  
6 management expense remain at the test year levels.

### 7 **VIII. ATTENDANT IMPACTS**

8 **Q. HAVE YOU INCLUDED THE ATTENDANT IMPACTS OF YOUR**  
9 **RECOMMENDED ADJUSTMENTS TO SWEPCO'S PROPOSED TOTAL**  
10 **COMPANY REVENUE REQUIREMENT?**

11 A. I have included the impacts to taxes other than income, federal income taxes, and cash  
12 working capital based on my recommended adjustments and the Company's proposed  
13 calculation of these revenue requirement components. The final computation should be  
14 performed by the Company once the Commission has made its decision concerning each  
15 of the recommended adjustments.

16 **Q. PLEASE EXPLAIN THE ADJUSTMENTS INCLUDED IN YOUR**  
17 **RECOMMENDED REVENUE REQUIREMENT THAT RELATE TO EACH OF**  
18 **THE ATTENDANT IMPACTS.**

19 A. With respect to taxes other than income, my recommended adjustments to base payroll and  
20 incentive compensation impacted the amount of Federal Insurance Contribution Act  
21 ("FICA") taxes proposed by the Company. Using the Company's calculation provided in  
22 the RFP, WP A-3.13, I reduced SWEPCO's proposed level of FICA for the total Company

1 by \$123,328.<sup>118</sup> For federal income taxes, I used the calculation provided by the Company  
2 on Schedule G-7.8 in the RFP and substituted my recommended rate base for purposes of  
3 computing the interest component of that computation. My calculation resulted in an  
4 increase of \$7,921,859 to adjusted test year federal income taxes on a total company  
5 basis.<sup>119</sup>

6 With respect to the cash working capital calculation, I used the calculation provided  
7 in the Company's RFP on Schedule E-4 and updated the O&M expense, federal income  
8 taxes, FICA taxes, and ad valorem taxes to include my recommended adjustments to these  
9 expenses. As shown on Schedule CTC-2, the impact of my recommended expense  
10 adjustments increase cash working capital by \$3,165,443.<sup>120</sup>

11 **IX. REFUND OF EXCESS DEFERRED INCOME TAXES**

12 **Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO THE REFUND**  
13 **OF THE UNPROTECTED ADFIT RESULTING FROM THE PASSAGE OF THE**  
14 **TAX CUTS AND JOBS ACT ("TCJA") OF 2017?**

15 A. As I have already testified, SWEPCO proposes to use the entire balance of the unprotected  
16 excess ADFIT as an offset to the remaining balance of the Dolet Hills Power Station in  
17 base rates rather than refund the unprotected excess ADFIT directly to Texas retail  
18 customers.<sup>121</sup> In addition, the Company proposes to include in the calculation of the total

---

<sup>118</sup> Cannady Schedules, Tab "WP A"; *see also* Cannady Workpapers, Tab "WP A-3.12(FICA)."

<sup>119</sup> *See* Schedule CTC-1A; *see also* Cannady Workpapers, Tab "G-7.8."

<sup>120</sup> Schedule CTC-17 and Schedule CTC-2.

<sup>121</sup> Direct Testimony of Michael A. Baird at 23.

1 offset, the protected excess ADFIT that is eligible for refund as of the time the rates for  
2 this proceeding are effective (January 2018 through March 2021).<sup>122</sup> The remaining  
3 protected excess ADFIT is included in the revenue requirement as a reduction to rate  
4 base.<sup>123</sup>

5 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**  
6 **TREATMENT OF THE ADFIT AVAILABLE FOR REFUND TO CUSTOMERS?**

7 A. My recommendation is two-fold. First, I recommend that SWEPCO refund the protected  
8 excess ADFIT shown by the Company to be eligible for refund in compliance with the IRS  
9 normalization rules through a one-time credit to customer bills within the first 60 days of  
10 the effective date of the rates adopted by the Commission in this proceeding. For the  
11 balance of unprotected excess ADFIT, I recommend that the Company refund the entire  
12 amount through a separate tax refund rider during the first two years of the effective date  
13 of the new rates. The tax refund rider calculations should include a carrying charge that is  
14 computed monthly and based on the WACC authorized by the Commission in this  
15 proceeding.

16 **Q. WHAT IS THE AMOUNT OF THE PROTECTED ADFIT THAT YOU**  
17 **RECOMMEND SWEPCO REFUND TO TEXAS RETAIL CUSTOMERS**  
18 **THROUGH A ONE-TIME BILL CREDIT?**

19 A. The protected excess ADFIT that the Company has provided that is eligible for return to

---

<sup>122</sup> RFP, WP Schedule B-1.5.17.1 (Dolet ADIT off-set); Direct Testimony of Michael A. Baird, Exhibit MAB-4.

<sup>123</sup> See Attachment Y, SWEPCO Response to OPUC RFI No.10-3.

1 Texas retail customers as of the end of the test year is \$5,245,870.<sup>124</sup> The Company  
2 estimated an additional amount of protected excess ADFIT that might be eligible by March  
3 2021 of \$2,162,705. This estimate should be replaced with the actual protected excess  
4 ADFIT reported as eligible as of March 31, 2021 and added to the amount shown for the  
5 test year. Using the current estimate, the one-time refund would be approximately \$7.4  
6 million.<sup>125</sup>

7 **Q. WHAT IS THE AMOUNT OF UNPROTECTED ADFIT THAT WOULD BE**  
8 **REFUNDED THROUGH YOUR RECOMMENDED TAX REFUND RATE**  
9 **RIDER?**

10 A. As shown on WP Schedule B-1.5.17.1 in the Company's RFP, the Texas retail balance of  
11 unprotected excess ADFIT is \$17,337,163. Using the tax gross-up factor of 1.326634  
12 results in a total initial balance to be refunded of \$23,000,070.<sup>126</sup> The refund calculation  
13 would include an equal monthly amount of the original balance for each of the 24 months  
14 and with an additional amount added to each month to account for a carrying charge related  
15 to the unrefunded balance at that time. As I have testified, the carrying charge should be  
16 computed monthly and based on the Company's authorized WACC from this proceeding.  
17 The monthly refund should be computed based on each customer's kWh usage. Schedule  
18 CTC-A provides the annual refund for the unprotected excess ADFIT, including carrying

---

<sup>124</sup> RFP, WP Schedule B-1.5.17.1.

<sup>125</sup> See Schedule CTC-A

<sup>126</sup> *Id.*

1 charges, for the first and second year that rates resulting from this proceeding will be in  
2 effect.<sup>127</sup>

3 **X. TESTIMONY SUMMARY**

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.**

5 **A.** I recommend that the Commission:

- 6 1. Remove all revenue requirement components related to the continued operations of the  
7 Dolet Hills Power Station during 2021 and establish a Dolet Hills Rate Rider that would  
8 be effective only during the time the Dolet Hills Power Station is used and useful in  
9 providing electric service to the Company's Texas retail customers;
- 10 2. Allow SWEPCO to amortize the undepreciated remaining balance of the Dolet Hills  
11 Power Station based on the retirement date originally established for the Dolet Hills  
12 Power Station of 2046, or 25 years;
- 13 3. Determine the amount of the undepreciated balance of the Dolet Hills Power Station  
14 based on the actual amounts collected via the Dolet Hills Rate Rider, without any offset  
15 for the excess ADFIT eligible for refund to the Company's Texas retail customers;
- 16 4. Remove the Oxbow Mine Reserves investment from rate base on the basis that the  
17 Oxbow Mine Reserves investment is no longer used and useful in providing electric  
18 service to the Company's Texas retail customers, and allow recovery of the Oxbow  
19 Mine Reserves investment over the same recovery period recommended for the Dolet  
20 Hills Power Station (25 years);
- 21 5. Remove the DHLC equity and related taxes expense recorded in FERC Account No.  
22 501 because DHLC no longer provides service to the Company's customers;
- 23 6. Annualize the base payroll for both SWEPO employees and AEPSC employees based  
24 on October 31, 2020 base pay;
- 25 7. Require SWEPCO to re-compute the Company's STI compensation adjustment to  
26 address the following:
  - 27 a. Use only the known STI compensation payouts for the test year and exclude  
28 any computations that relate to the estimated 2021 payouts; and

---

<sup>127</sup> See Cannady Workpapers, Tab "UPExADFIT".



1                   b. Remove the STI compensation that was awarded based on financial  
2                   performance measures from the payouts to union employees;

3           8. Reduce the requested storm reserve to reflect a cap on storm damages that is no greater  
4           than the actual storm damages that the Company incurred since 2000;

5           9. Disallow the requested \$5 million increase to the Texas vegetation management  
6           expense;

7           10. Issue a one-time refund to the Company's Texas retail customers for the amount of  
8           protected excess ADFIT that is eligible for refund as of March 31, 2021;

9           11. Develop a tax refund rate rider that will refund the entire grossed-up balance of the  
10           Texas retail unprotected excess ADFIT over a two-year period, including a carrying  
11           charge on the unrefunded balance, computed monthly and based on the WACC  
12           approved by the Commission in this proceeding.

13   **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

14   A.   Yes. However, I reserve the right to amend and supplement my testimony as may be  
15       required.

# **SCHEDULES**

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

## SUMMARY OF RECOMMENDED ADJUSTMENTS TO TEXAS RETAIL REVENUE REQUIREMENTS

TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Proposed Revenue Requirements - Texas (1)	OPUC Recommended Adjustment	OPUC Recommended Revenue Requirements - Texas
OPERATING REVENUE	\$ 534,166,132	\$ (19,711,202)	\$ 514,454,930 <sup>(2)</sup>
<b>OPERATING EXPENSES</b>			
OPERATION & MAINTENANCE EXPENSE			
FUEL AND PURCHASED POWER EXPENSE	8,343,590	(524,292) <sup>(3)</sup>	7,819,298
OTHER OPERATION & MAINTENANCE	207,397,921	(12,820,042)	194,577,879
<b>TOTAL OPERATION &amp; MAINTENANCE EXPENSE</b>	<b>215,741,511</b>	<b>(13,344,334)</b>	<b>202,397,177 <sup>(2)</sup></b>
TAXES OTHER THAN INCOME	41,570,103	(1,603,923)	39,966,180 <sup>(2)</sup>
TEXAS GROSS MARGIN TAX			-
DEPRECIATION AND AMORTIZATION EXPENSE	105,928,834	(2,023,543)	103,905,292 <sup>(2)</sup>
<b>OPERATING EXPENSES BEFORE INCOME TAXES</b>	<b>363,240,448</b>	<b>(16,971,799)</b>	<b>346,268,649</b>
<b>INCOME TAXES</b>	<b>24,601,826</b>	<b>(436,173)</b>	<b>24,165,653 <sup>(2)</sup></b>
<b>NET OPERATING INCOME</b>	<b>\$ 146,323,858</b>	<b>\$ (2,303,230)</b>	<b>\$ 144,020,628</b>
<b>RATE BASE</b>	<b>2,025,542,720</b>		<b>1,993,670,146 <sup>(4)</sup></b>
<b>RATE OF RETURN</b>	<b>7.22%</b>		<b>7.22%</b>

	SWEPCO Proposed Increase in Texas Retail <sup>(5)</sup>	OPUC Adjustment	OPUC Recommended Increase to Texas Retail
<b>Proposed Change to Base Rates</b>			
<b>First Year</b>			
Texas Retail Base Rate Deficiency	\$ 105,026,238	\$ (19,711,202)	\$ 85,315,036
Add First Year Dolet Hill Rate Rider	-	13,371,343	13,371,343 <sup>(6)</sup>
Deduct Refund for Eligible Protected Excess ADFIT	-	(7,408,575)	(7,408,575) <sup>(7)</sup>
Deduct First Year of Refund for Unprotected Excess ADFIT	-	(12,711,547)	(12,711,547) <sup>(8)</sup>
<b>First Year Rate Impact</b>	<b>\$ 105,026,238</b>	<b>\$ (26,459,981)</b>	<b>\$ 78,566,257</b>
<b>Second Year</b>			
Texas Retail Base Rate Deficiency	\$ 105,026,238	\$ (19,711,202)	\$ 85,315,036
Deducted Second Year of Refund for Unprotected Excess ADFIT	-	(11,880,796)	(11,880,796) <sup>(8)</sup>
<b>Second Year Rate Impact</b>	<b>\$ 105,026,238</b>	<b>\$ (31,591,998)</b>	<b>\$ 73,434,240</b>
<b>Years 3-4</b>	<b>\$ 105,026,238</b>	<b>\$ (19,711,202)</b>	<b>\$ 85,315,036</b>

## Sources:

(1) Rate Filing Package, Schedule A, page 2 (Rev Deficiency)

(2) Workpapers of Mr. Tony Georgis - Adjusted Schedule P-1 Texas Jurisdiction

(3) SCH CTC-11

(4) SCH CTC-2

(5) Rate Filing Package, Direct Testimony of Mr. Michael A. Baird, page 4

(6) SCH CTC-3A

(7) Calculated from Rate Filing Package, WP Schedule B-1.5.17.1

(8) Calculated from Cannady Workpapers, Tab Excess Deferred Refund

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415

SWEPCO

SUMMARY OF RECOMMENDED ADJUSTMENTS TO TOTAL COMPANY REVENUE REQUIREMENTS  
TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Adjustment Test Year (1)	SWEPCO Proposed Increase in Revenue Requirements (1)	SWEPCO Proposed Revenue Requirements (1)	OPUC Adjustment Test Year	OPUC Recommended Increase in Revenue Requirements (2)	OPUC Recommended Revenue Requirement (2)
OPERATING REVENUE	\$ 1,155,370,411	\$ 228,419,735	\$ 1,383,790,146	\$ 1,155,370,411 (1)	\$ 184,864,890 (2)	\$ 1,340,235,301
OPERATING EXPENSES						
OPERATION & MAINTENANCE EXPENSE						
FUEL AND PURCHASED POWER EXPENSE	23,721,216	-	23,721,216	22,243,710 (7)	-	22,243,710
OTHER OPERATION & MAINTENANCE	528,454,449	1,190,699	529,645,148	502,597,164 (2)	963,658 (3)	503,560,822
TOTAL OPERATION & MAINTENANCE EXPENSE	552,175,664	1,190,699	553,366,363	524,840,874	963,658	525,804,531
TAXES OTHER THAN INCOME	95,397,717	4,615,468	100,013,186	92,438,690 (2)	3,735,395 (3)	96,174,085
TEXAS GROSS MARGIN TAX	(495,820)	774,165	278,345	(495,820) (2)	626,548 (3)	130,728
DEPRECIATION AND AMORTIZATION EXPENSE	275,368,632	-	275,368,632	270,280,694 (2)	-	270,280,694
OPERATING EXPENSES BEFORE INCOME TAXES	922,446,194	6,580,332	929,026,526	887,064,438	5,325,601	892,390,039
INCOME TAXES	18,859,269	46,586,275	65,445,544	26,781,128 (2)	37,703,251 (3)	64,484,378 28
NET OPERATING INCOME	214,064,948	175,253,128	389,318,076	241,524,846	141,836,038 (3)	383,360,884
RATE BASE	5,389,281,028		5,389,281,028	5,306,816,363		5,306,816,363
RATE OF RETURN	3.97%		7.22%	4.55%		7.22%

Sources

(1)Rate Filing Package, Schedule A, page 2 (Rev Deficiency)

(2)Schedule CTC-1A

(3)Cannady Workpapers, Tab WP A, page 2 (Rev Deficiency)

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

## SUMMARY OF RECOMMENDED ADJUSTMENTS TO TEST YEAR OPERATING EXPENSES

TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Proposed O&M (1)	OPUC Recommended Adjustments	OPUC Proposed O&M (2)
<b>OPERATING EXPENSES</b>			
OPERATION & MAINTENANCE EXPENSE			
FUEL AND PURCHASED POWER EXPENSE	23,721,216	(1,477,506)	22,243,710
OTHER OPERATION & MAINTENANCE	528,454,449	(25,857,285)	502,597,164
<b>TOTAL OPERATION &amp; MAINTENANCE EXPENSE</b>	552,175,665	(27,334,791)	524,840,874
 TAXES OTHER THAN INCOME	 95,397,717	 (2,959,027)	 92,438,690
TEXAS GROSS MARGIN TAX	(495,820)	-	(495,820)
DEPRECIATION AND AMORTIZATION EXPENSE	275,368,632	(5,087,938)	270,280,694
<b>OPERATING EXPENSES BEFORE INCOME TAXES</b>	922,446,194	(35,381,756)	887,064,438
<b>INCOME TAXES</b>			
OTHER STATE INCOME TAX	-		
FEDERAL INCOME TAX	18,859,269	7,921,859	26,781,128 <sup>(7)</sup>
<b>TOTAL INCOME TAXES</b>	18,859,269	7,921,859	26,781,128
 <b>TOTAL OPERATING EXPENSES</b>	 \$ 941,305,463	 \$ (27,459,897)	 \$ 913,845,566

Sources:

(1) Rate Filing Package, Schedule A

(2) Cannady Workpapers, WP O&amp;M Adjustment

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

**SUMMARY OF RECOMMENDED ADJUSTMENTS TO RATE BASE - TOTAL COMPANY AND TEXAS RETAIL  
TEST YEAR ENDED MARCH 31, 2020**

	SWEPCO Adjusted Electric (1)	OPUC Recommended Adjustment	OPUC Adjusted Electric	SWEPCO Adjusted Electric - Texas (1)	OPUC Recommended Adjustment	OPUC Adjusted Electric - Texas (8)
<b>RATE BASE SUMMARY</b>						
1 PLANT IN SERVICE	\$ 9,322,315,937	\$ (342,647,464) <sup>(2)</sup>	\$ 8,979,668,473	\$ 3,533,580,379	\$ (128,484,417)	\$ 3,405,095,962 <sup>(9)</sup>
2 ACCUMULATED DEPRECIATION / AMORTIZATION	(3,195,178,236)	302,121,920 <sup>(3)</sup>	(2,893,056,316)	(1,205,785,224)	112,440,087	(1,093,345,137)
3 NET PLANT	6,127,137,701	(40,525,544)	6,086,612,157	2,327,795,155	(16,044,330)	2,311,750,825
4 ELECTRIC PLANT HELD FOR FUTURE USE	220,915	-	220,915	220,915	-	220,915
5 COMPLETED CONSTRUCTION NOT CLASSIFIED	319,647,154	-	319,647,154	129,836,470	-	129,836,470 <sup>(9)</sup>
6 OTHER ELECTRIC PLANT ADJUSTMENTS	(70,857,434)	-	(70,857,434)	(70,857,434)	-	(70,857,434)
7 WORKING CASH	(145,220,159)	3,165,443 <sup>(4)</sup>	(142,054,716)	(54,580,497)	1,213,237	(53,367,260)
8 FUEL INVENTORY	86,706,344	(28,528,383) <sup>(5)</sup>	58,177,961	32,048,295	(10,544,627) <sup>(7)</sup>	21,503,668
9 MATERIALS AND SUPPLIES	69,523,407	-	69,523,407	25,827,992	-	25,827,992
10 PREPAYMENTS	100,601,406	-	100,601,406	36,990,597	(359,942)	36,630,655
11 CUSTOMER DEPOSITS	(65,072,259)	-	(65,072,259)	(14,926,505)	-	(14,926,505)
12 REGULATORY ASSETS AND LIABILITIES	2,533,221	-	2,533,221	939,474	-	929,423
13 ACCUMULATED DEFERRED INCOME TAXES	(978,829,932)	-	(978,829,932)	(371,341,206)	-	(371,341,199)
14 ACCUMULATED DEFERRED ITC	-	-	-	-	-	-
15 INVESTMENT IN OXBOW	16,576,181	(16,576,181) <sup>(6)</sup>	-	6,126,868	(6,126,868) <sup>(6)</sup>	-
16 OTHER RATE BASE ADJUSTMENTS	(73,685,517)	-	(73,685,517)	(22,537,405)	-	(22,537,405)
17 RATE BASE	<u>\$ 5,389,281,028</u>	<u>\$ (82,464,665)</u>	<u>\$ 5,306,816,363</u>	<u>\$ 2,025,542,720</u>	<u>\$ (31,862,530)</u>	<u>\$ 1,993,670,146</u>
18						
19 RATE OF RETURN	7.22%		7.22%	7.22%		7.22%
20 RETURN ON RATE BASE	\$ 389,318,158		\$ 383,360,965	\$ 146,323,859		\$ 144,020,628

## Sources:

(1) Rate Filing Package, Schedule B-1

(2) Schedule CTC-3 and Schedule CTC-8A

(3) Schedule CTC-3

(4) Schedule CTC-17

(5) Schedule CTC-6

(6) Schedule CTC-5

(7) Schedule CTC-6

(8) Workpapers of Mr. Tony Georgis - Adjusted Schedule P-1 Texas Jurisdiction

(9) These two amounts combine to total plant in service in Workpapers of Mr. Tony Georgis - Adjusted Schedule P-1 Texas Jurisdiction

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO REMOVE DOLET HILLS FROM NET PLANT IN SERVICE  
TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Proposed (1)	OPUC Recommended	OPUC Recommended Adjustment	Jurisdictional Allocation Factor (2)	SWEPCO Proposed - Texas	OPUC Recommended- Texas	OPUC Recommended Adjustment - Texas
Adjustment to Remove Dolet Hills From Gross Plant from Base Rates (1)	\$ 342,605,425	\$ -	\$ (342,605,425)	36.94%	\$ 126,570,137	\$ -	\$ (126,570,137)
Adjustment to Remove Dolet Hills From Accumulated Depreciation	(342,625,561)	-	342,625,561	36.94%	(126,577,576)	-	126,577,576
Additional Accumulated Depreciation for GAAP	29,763,258	-	(29,763,258)	36.94%	10,995,563 (1)	-	(10,995,563)
Adjustment to Remove Demolition Estimated Costs	10,740,383	-	(10,740,383)	36.94%	3,967,864 (1)	-	(3,967,864)
Total Adjustment to Net Plant in Service	<u>\$ 40,483,505</u>	<u>\$ -</u>	<u>\$ (40,483,505)</u>		<u>\$ 14,955,988 (1)</u>	<u>\$ -</u>	<u>\$ (14,955,988)</u>

## Sources

(1) Rate Filing Package, Exhibit MAB-4

(2) Calculated from Rate Filing Package, Exhibit MAB-4

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
COMPUTATION OF 2021 DOLET HILLS RATE RIDER  
TEST YEAR ENDED MARCH 31, 2020

	Total Company	Jurisdictional Allocation Factor	Texas Dolet Hills Rider Rate for 2021
Dolet Hill Gross Plant in Service at April 2021	\$ 340,892,473 <sup>(1)</sup>		
Accumulated Depreciation at April 2021	(235,828,666) <sup>(1)</sup>		
Net Plant in Service	105,063,807		
Average Lignite Inventory	22,663,008 <sup>(3)</sup>		
DH Rider Rate Base	127,726,815		
Pre Tax Rate of return	8.58% <sup>(2)</sup>		
<b>Return Plus Income Taxes</b>	<b>10,964,582</b>		
<b>Dolet Hills Operating Expense</b>			
O&M Expense	12,466,938 <sup>(4)</sup>		
Deprecation Expense	8,824,080 <sup>(1)</sup>		
Property Taxes	2,835,700 <sup>(2)</sup>		
Property Insurance	442,574 <sup>(4)</sup>		
Gross Margin Tax	190,019		
Revenue Taxes	470,226		
<b>Total Operating Expense</b>	<b>25,229,538</b>		
<b>Total DH Rider Revenue Requirements</b>	<b>\$ 36,194,120</b>	<b>36.943%</b>	<b>\$ 13,371,343</b>

<b>Revenue Related Tax Calculation</b>	
Gross Operating Revenue	\$ 36,194,120
Taxable Revenue Percent	70.00% <sup>(2)</sup>
Taxable Revenue	25,335,884
Taxable Margin Percent	0.75% <sup>(2)</sup>
Gross Margin Tax	\$ 190,019
Revenue Related Taxes	
Revenue Tax Factors	1.2992% <sup>(2)</sup>
	\$ 470,226

Pre-Tax Rate of Return	Capital Ratio	Component Costs	Weighted Avg Cost	Pre-Tax Cost
	(5)	(5)	(5)	(5)
Long Term Debt	50.63%	4.18%	2.12%	2.12%
Common Equity	49.37%	10.35%	5.11%	6.47%
Total Capital	100.00%		7.23%	8.5844%

## Sources

- (1) SCH CTC-3B  
(2) SWEPCO Response to OPUC RFI No. 5-7.  
(3) Confidential SCH CTC-3C  
(4) SWEPCO Response to Commission Staff RFI No. 5-57  
(5) Rate Filing Package, Schedule K



SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

## COMPUTATION OF DOLET HILLS NET PLANT IN SERVICE TO BE INCLUDED IN THE DH RATE RIDER

TEST YEAR ENDED MARCH 31, 2020

Dolet Hills Generating Station	Plant Balances at June 2020	Estimated CWIP Closed to Plant by April 2021	Total Estimated Plant in Service at April 2021
<b>Gross Plant in Service</b>			
311 Structures and Improvements	57,127,514 <sup>(1)</sup>	316,617 <sup>(2)</sup>	57,444,131
312 Boiler Plant Equipment	211,216,144 <sup>(1)</sup>	64,978 <sup>(2)</sup>	211,281,122
314 Turbogenerator Units	39,735,805 <sup>(1)</sup>	- <sup>(2)</sup>	39,735,805
315 Accessory Electric Equipment	12,575,554 <sup>(1)</sup>	97 <sup>(2)</sup>	12,575,651
316 Misc. Power Plant Equipment	16,666,082 <sup>(1)</sup>	- <sup>(2)</sup>	16,666,082
317 Asset Retirement Costs	1,230,657 <sup>(1)</sup>	1,959,026 <sup>(2)</sup>	3,189,683
334 Accessory Electric Equipment	- <sup>(1)</sup>	-	-
335 Misc. Power Plant Equipment	- <sup>(1)</sup>	-	-
Total Accounts 301-335	\$ 338,551,756	\$ 2,340,717	\$ 340,892,473

Accumulated Depreciation and Annual Depreciation Expense	Plant Balances at June 2020	Current Depreciation Rate	Additional Depreciation Through March 2021	One-Half of Additional Depreciation for Estimated CWIP	Dolet Hills Adjusted Accumulated Depreciation for Rider	Depreciation Expense
311 Structures and Improvements	51,966,358 <sup>(3)</sup>	2.00% <sup>(4)</sup>	856,913	2,375	52,825,645.34	1,148,883
312 Boiler Plant Equipment	139,942,797 <sup>(3)</sup>	2.36% <sup>(4)</sup>	3,738,526	575	143,681,897.80	4,986,234
314 Turbogenerator Units	33,443,811 <sup>(3)</sup>	2.13% <sup>(4)</sup>	634,779	-	34,078,590.48	846,373
315 Accessory Electric Equipment	10,578,211 <sup>(3)</sup>	2.10% <sup>(4)</sup>	198,065	1	10,776,276.74	264,089
316 Misc. Power Plant Equipment	13,644,739 <sup>(3)</sup>	2.39% <sup>(4)</sup>	298,740	-	13,943,478.52	398,319
317 Asset Retirement Costs	546,783 <sup>(3)</sup>	37.00% <sup>(4)</sup>	341,507	271,815	1,160,105.11	1,180,183
334 Accessory Electric Equipment	-	- <sup>(4)</sup>	-	-	-	-
335 Misc. Power Plant Equipment	-	0.00% <sup>(4)</sup>	-	-	-	-
Total Accumulated Depreciation	\$ 250,122,699		\$ 6,068,530	\$ 274,765	\$ 256,465,994	\$ 8,824,080
Remove GAAP Accumulated Depreciation (April-June)	(20,637,328) <sup>(5)</sup>				(20,637,328)	
	\$ 229,485,371				\$ 235,828,666	

## Sources

(1) SWEPCO Response to OPUC RFI No. 9-1

(2) SWEPCO Response to OPUC RFI No. 9-5

(3) Rate Filing Package, Exhibit MAB-4

(4) Calculated from SWEPCO Response to OPUC RFI No. 9-2

(5) Calculated from SWEPCO Response to Commission Staff RFI No. 5-59 (Jan-June 2020)

**This page contains  
Confidential Material**

## SOAH DOCKET NO. 473-21-0538

## PUC DOCKET NO. 51415

## SWEPCO

## TEST YEAR O&amp;M AND INSURANCE EXPENSE FOR DOLET HILLS

## TEST YEAR ENDED MARCH 31, 2020

		Texas Allocation	
		Total Company	Texas Retail
		(1)	(2)
<u>Steam Power Generation - Operation</u>			
5000	Oper Supervision & Engineering	\$ 1,000,513	36.93% \$ 369,480.55
5020	Steam Expenses	1,357,844	36.93% 501,427
5050	Electric Expenses	483,234	36.93% 178,450
5060	Misc Steam Power Expenses	3,807,766	36.93% 1,406,139
5070	Rents	634	36.93% 234
		<u>6,649,991</u>	<u>2,455,731</u>
<u>Steam Power Generation - Maintenance</u>			
5100	Maint Supv & Engineering	394,249	36.95% 145,692
5110	Maintenance of Structures	200,177	36.93% 73,922
5120	Maintenance of Boiler Plant	3,947,061	36.96% 1,458,909
5130	Maintenance of Electric Plant	174,758	36.96% 64,594
5140	Maintenance of Misc Steam Plt	1,100,713	36.93% 406,474
		<u>5,816,958</u>	<u>2,149,590</u>
<u>Other Power Generation - Operation</u>			
5480	Generation Expenses	(3)	36.93% (1)
5490	Misc Other Pwer Generation Exp	(3)	(1)
<u>Other Power Generation - Maintenance</u>			
5510	Maint Supv & Engineering	(1)	36.93% (0)
5530	Maintenance of Generating Plt	(7)	36.93% (3)
		<u>(8)</u>	<u>(3)</u>
Total Production O&M (excluding Fuel and Purchased Power)		\$ 12,466,938	\$ 4,605,317
9240	Property Insurance	<u>442,574</u>	100% <u>442,574</u>
Total Expense		<u>\$ 12,909,516</u>	<u>\$ 5,047,891</u>

Source:

(1)SWEPCO Response to Commission Staff RFI No. 5-57

(2) Rate Filing Package, Schedule P-1

**SOAH DOCKET NO. 473-21-0538**  
**PUC DOCKET NO. 51415**  
**SWEPCO**  
**ADJUSTMENT TO REMOVE OXBOW MINE INVESTMENT**  
**TEST YEAR ENDED MARCH 31, 2020**

	<u>SWEPCO Adjusted Electric</u>	<u>SWEPCO Adjusted Electric - Texas</u>
Total Company Test Year End Investment in Oxbow Mining	\$ 16,576,181	\$ 6,126,868
OPUC Recommended Test Year Investment for Oxbow Mining	<u>-</u>	<u>-</u>
OPUC Recommended Adjustment to Rate Base	<u>\$ (16,576,181)</u>	<u>\$ (6,126,868)</u>
OPUC Recommended Adjustment to Amortization Expense	<u>\$ 663,047</u>	<u>\$ 245,075</u>

## Sources:

Rate Filing Package, Schedule B-1.1

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO FUEL INVENTORY FOR DOLET HILLS  
TEST YEAR ENDED DECEMBER 31, 2017

	<u>SWEPCO Adjusted Electric</u>	<u>Jurisdictional Allocation Factor</u>	<u>SWEPCO Adjusted Electric - Texas</u>
SWEPCO Proposed Lignite Inventory Related to Dolet Hills	\$ 28,528,383 (1)	36.96% (2)	\$ 10,544,627
OPUC Recommended Lignite Inventory Related to Dolet Hills	<u>-</u>	36.96%	-
OPUC Recommended Adjustment to Rate Base	<u>\$ (28,528,383)</u>		<u>\$ (10,544,627)</u>

Source:

(1) Rate Filing Package, WP B-1 5 7 (Coal Inventory)

(2) Calculated from Rate Filing Package, Schedule P-1, TX Juris, line 1106

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
ADJUSTMENT TO BASE PAYROLL  
TEST YEAR ENDED MARCH 31, 2020

	<u>SWEPCO Direct Payroll</u>		
	<u>SWEPCO Adjusted Electric</u>	<u>Jurisdictional Allocation Factor</u>	<u>SWEPCO Adjusted Electric - Texas</u>
SWEPCO Proposed O&M Base Payroll	\$ 76,551,424 <sup>(1)</sup>		
OPUC Recommended SWEPCO O&M Base Payroll	<u>77,095,756 <sup>(1)</sup></u>		
OPUC Recommended Adjustment to SWEPCO Adjusted O&M Expense	544,331	36 61%	199,282 <sup>(1)</sup>

	<u>SWEPCO Affiliated Payroll</u>		
	<u>SWEPCO Adjustment to TY AEPSC Payroll</u>	<u>Jurisdictional Allocation Factor</u>	<u>SWEPCO Adjustment to TY AEPSC Payroll - Texas</u>
SWEPCO Proposed Adjustment to Test Year AEPSC Base Payroll for Headcount	\$ 3,804,876 <sup>(2)</sup>		
OPUC Proposed Adjustment to Test Year AEPSC Base Payroll for Headcount	<u>(675,636) <sup>(2)</sup></u>		
OPUC Recommended Adjustment to AEPSC Base Payroll for Headcount	<u>\$ (4,480,512)</u>	37 63%	<u>\$ (1,686,106) <sup>(2)</sup></u>

## Sources:

(1)SCH CTC-7A

(2)SCH CTC-7B

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

RECOMMENDED ADJUSTMENT TO SWEPCO DIRECT PAYROLL

TEST YEAR ENDED MARCH 31, 2020

FERC Account	Company Proposed Annualized Direct Payroll	OPUC Recommended Annualized Direct Payroll	OPUC Recommended Adjustment to Direct Payroll	Texas Allocation Factor	OPUC Recommended Adjustment to Texas Retail
5000	\$ 5,425,087	\$ 5,463,663	\$ 38,576	36 93%	14,246
5010	52,142	52,513	371	36 96%	137
5020	7,055,472	7,105,641	50,169	36 93%	18,527
5050	7,323,047	7,375,119	52,072	36 93%	19,229
5060	3,271,702	3,294,966	23,264	36 93%	8,591
5100	4,041,570	4,070,308	28,738	36.95%	10,620
5110	855,587	861,671	6,084	36 93%	2,247
5120	8,431,391	8,491,344	59,953	36 96%	22,160
5130	1,798,542	1,811,331	12,789	36 96%	4,727
5140	1,900,382	1,913,895	13,513	36 93%	4,990
5420	202	204	1	36 93%	1
5440	1,158	1,166	8	36 93%	3
5480	212,272	213,781	1,509	36 93%	557
5520	1,014	1,021	7	36 93%	3
5530	321,665	323,952	2,287	36 93%	845
5600	1,495,827	1,506,464	10,636	43 74%	4,652
5612	714	720	5	43 75%	2
5620	249,430	251,203	1,774	43.63%	774
5630	20,982	21,131	149	43.83%	65
5660	304,653	306,819	2,166	43 75%	948
5680	3,328	3,352	24	43 67%	10
5690	4,880	4,914	35	43.63%	15
5700	1,042,638	1,050,052	7,414	43 63%	3,234
5710	375,791	378,463	2,672	43 83%	1,171
5800	674,051	678,844	4,793	32 90%	1,577
5820	314,691	316,929	2,238	36 84%	824
5830	(1,426,652)	(1,436,797)	(10,144)	37 25%	(3,779)
5840	635,960	640,482	4,522	28 42%	1,285
5850	26,562	26,751	189	25.45%	48
5860	2,642,007	2,660,794	18,786	26 69%	5,014
5870	269,454	271,370	1,916	37 01%	709
5880	9,572,002	9,640,065	68,063	35 24%	23,982
5900	125,749	126,643	894	36 02%	322
5910	7,126	7,177	51	32 46%	16
5920	696,150	701,101	4,950	36 84%	1,824
5930	5,843,949	5,885,504	41,554	36 93%	15,347
5940	190,024	191,375	1,351	28.42%	384
5950	74,903	75,436	533	36 22%	193
5960	137,572	138,550	978	25 45%	249
5970	353,611	356,125	2,514	26 69%	671
5980	209,210	210,697	1,488	37 01%	551
9010	475,885	479,269	3,384	35 43%	1,199
9020	1,791,353	1,804,091	12,738	34 96%	4,453
9030	2,509,083	2,526,925	17,841	35 54%	6,340
9070	1,003,989	1,011,128	7,139	42.92%	3,064
9080	1,940,679	1,954,479	13,800	42 97%	5,929
9200	4,450,251	4,481,895	31,644	37 09%	11,736
9220	(2,116,353)	(2,131,402)	(15,049)	37 09%	(5,581)
9250	209,163	210,650	1,487	37 09%	552
9280	2,052	2,067	15	37 09%	5
9302	113,306	114,112	806	37 09%	299
9350	1,636,171	1,647,805	11,634	37 09%	4,315
	\$ 76,551,424	\$ 77,095,756	\$ 544,331	36 61%	\$ 199,282

## Sources

- (1) Rate Filing Package, A-3 (Proforma Adjustments), Tab A-3 1 (SWEPCO Payroll)  
 (2) SWEPCO Response to Staff RFI No 5-27, Attachment 2

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

RECOMMENDED ADJUSTMENT TO AEPSC PAYROLL BILLED TO SWEPCO

TEST YEAR ENDED MARCH 31, 2020

FERC Account	Company Proposed		OPUC		Texas Allocation Factor	OPUC	
	Adjustment to TY AEPSC Payroll Billed to SWEPCO	Adjustment to TY AEPSC Payroll Billed to SWEPCO	Recommended Adjustment to TY AEPSC Payroll Billed to SWEPCO	Recommended Adjustment to Direct Payroll		Recommended Adjustment to Texas Retail	
5000	\$ 609,540	\$ (111,114)	\$ (720,654)	36 93%	\$ (266,131)		
5010	42,067	(7,639)	(49,707)	36 96%	(18,372)		
5020	9,783	(1,800)	(11,582)	36 93%	(4,277)		
5050	252	(46)	(298)	36 93%	(110)		
5060	39,848	(7,246)	(47,094)	36 93%	(17,391)		
5100	21,746	(3,990)	(25,736)	36 95%	(9,511)		
5110	34,780	(6,462)	(41,242)	36 93%	(15,230)		
5120	75,011	(13,885)	(88,896)	36 96%	(32,858)		
5130	19,247	(3,552)	(22,799)	36 96%	(8,427)		
5140	7,081	(1,315)	(8,396)	36 93%	(3,101)		
5240	0	(0)	(0)	36 93%	(0)		
5280	364	(67)	(430)	36 93%	(159)		
5290	22	(4)	(26)	36 93%	(10)		
5300	0	0	(0)	36 93%	(0)		
5310	1	(0)	(1)	36 93%	(0)		
5350	274	(50)	(324)	36 93%	(120)		
5370	26	(5)	(31)	36 93%	(12)		
5390	314	(58)	(373)	36 93%	(138)		
5450	54	(9)	(64)	36 93%	(23)		
5510	(0)	(0)	0	36 93%	0		
5530	672	(123)	(794)	36 93%	(293)		
5560	83,883	(15,412)	(99,295)	36 93%	(36,668)		
5570	187,762	(34,454)	(222,215)	36 93%	(82,060)		
5600	358,219	(65,055)	(423,274)	43 74%	(185,144)		
5612	56,225	(10,282)	(66,507)	43 75%	(29,100)		
5615	13,304	(2,441)	(15,744)	43 75%	(6,889)		
5620	388	(69)	(456)	43 63%	(199)		
5630	1,066	(194)	(1,260)	43 83%	(552)		
5660	79,882	(14,571)	(94,452)	43 75%	(41,328)		
5670	7	(1)	(9)	43 24%	(4)		
5680	542	(99)	(641)	43 67%	(280)		
5690	3	(0)	(3)	43 63%	(1)		
5691	525	(96)	(621)	43 63%	(271)		
5692	8,276	(1,501)	(9,777)	43 63%	(4,266)		
5700	11,614	(2,107)	(13,721)	43 63%	(5,986)		
5710	1,243	(223)	(1,466)	43 83%	(642)		
5730	70	(13)	(82)	43 75%	(36)		
5800	64,796	(11,408)	(76,204)	32 90%	(25,071)		
5820	4,059	(743)	(4,802)	36 84%	(1,769)		
5830	22	(4)	(26)	37 25%	(10)		
5840	758	(132)	(890)	28 42%	(253)		
5860	10,667	(1,878)	(12,545)	26 69%	(3,349)		
5880	61,383	(10,866)	(72,249)	35 24%	(25,457)		
5900	474	(83)	(557)	36 02%	(201)		
5920	4,957	(900)	(5,858)	36 84%	(2,158)		
5930	2,658	(467)	(3,124)	36 93%	(1,154)		
5970	20	(3)	(23)	26 69%	(6)		
9010	4,577	(804)	(5,381)	35 43%	(1,906)		
9020	8,108	(1,445)	(9,553)	34 96%	(3,339)		
9030	538,030	(92,888)	(630,918)	35 54%	(224,202)		
9050	1,670	(302)	(1,972)	35 43%	(699)		
9070	7,169	(1,281)	(8,450)	42 92%	(3,627)		
9080	4,389	(810)	(5,199)	42 97%	(2,234)		
9100	851	(114)	(965)	34 55%	(333)		
9120	169	(31)	(200)	34 56%	(69)		
9200	1,303,857	(225,345)	(1,529,202)	37 09%	(567,123)		
9210	110	55	(54)	37 09%	(20)		
9220	-	0	0	37 09%	0		
9230	60	(10)	(70)	37 09%	(26)		
9250	841	(154)	(994)	37 09%	(369)		
9260	1,390	(248)	(1,638)	37 09%	(608)		
9280	97,877	(18,059)	(115,937)	37 09%	(42,997)		
9301	21	(4)	(24)	37 09%	(9)		
9302	10,924	(1,930)	(12,855)	37 09%	(4,767)		
9350	10,950	(1,897)	(12,847)	37 09%	(4,764)		
	\$ 3,804,876	\$ (675,636)	\$ (4,480,512)	37 63%	\$ (1,686,106)		

Source

(1) Rate Filing Package, Exhibit BJF-18, pages 14-15

(2) SWEPCO Response to Staff RFI No 5-27, Attachment 1



SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO SWEPCO DIRECT STI COMPENSATION  
TEST YEAR ENDED MARCH 31, 2020

	Distribution	Support Staff	Generation	Transmission	Total
SWEPCO Direct Test Year STI Compensation at 100% Target (1)	\$ 5,142,481	\$ 546,731	\$ 4,182,230	\$ 782,208	\$ 10,653,650
Remove Test Year STI Compensation Billed to Co-Owners (2)	-	12,752	570,001	-	582,753
SWEPCO Direct Test Year STI Compensation at 100% Target Less Billings to Co-Owners	5,142,481	533,979	3,612,229	782,208	10,070,897
Percentage of STI Award Based on Organizational Financial Performance Metrics (3)	-10.00%	-15.12%	0.00%	-10.00%	-6.32%
Adjustment to Remove STI Compensation Based on Organizational Financial Performance Metrics	(514,248)	(80,775)	-	(78,221)	(673,244)
Balance Before Adjustment for EPS Funding Trigger	4,628,233	453,204	3,612,229	703,987	9,397,653
Remove 50% of the Test Year Direct STI Due to EPS Funding Trigger (4)	35.00%	-33.40%	-35.00%	-35.00%	
Reduce Test Year Expense for 50% of EPS Funding Trigger	(1,619,882)	(151,370)	(1,264,280)	(246,396)	(3,281,927)
Total Adjusted STI Compensation to be Funded by Ratepayers	3,008,351	301,834	2,347,949	457,592	6,115,726
O&M Expense Percentage (5)	62.30%	65.18%	83.92%	46.89%	69.59%
OPUC Recommended Direct STI Compensation O&M Expense	1,874,278	196,724	1,970,505	214,564	4,256,071
SWEPCO Proposed Direct STI Compensation O&M Expense	3,317,170 (6)	270,945 (7)	2,080,703 (8)	264,966 (9)	5,933,784
OPUC Recommended Adjustment to SWEPCO Proposed STI Compensation O&M Expense	\$ (1,442,892)	\$ (74,221)	\$ (110,198)	\$ (50,402)	\$ (1,677,713)

Additional Amount Based on Error (12)

Texas Retail Portion \$ (42,039)  
(15,529)

- (1) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "calc of 1.0 icp target"  
(2) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" sum of lines 82, 83, 91, 92, 93 in columns C and D  
(3) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" Line 96  
(4) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" Line 89, replaced with equal sharing of a 100% funding trigger for 2020  
(5) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" Line 109  
(6) SWEPCO Response to OPUC RFI No. 1-15, Attachment 3, Tab "icp proforma" B124 plus G124  
(7) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" C124 plus H124  
(8) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" D124 plus I124  
(9) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" E124 plus J124  
(10) Line 17 minus SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" Line 102  
(11) SWEPCO Response to OPUC RFI No. 1-15, Attachment 5, Tab "icp proforma" Line 109  
(12) SWEPCO Response to Commission Staff RFI No. 5-36

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO DIRECT STI EXPENSE BY FERC ACCOUNT  
TEST YEAR ENDED MARCH 31, 2020

SWEPCO Adjusted Test Year(2019) Direct STI by Group <sup>(1)</sup>											OPUC Recommended Adjusted Direct STI by Group <sup>(2)</sup>											SWEPCO Adjusted Total Direct STI by FERC Account	OPUC Recommended Adjustment to Total Direct STI by FERC Account		Texas Allocation Factor <sup>(4)</sup>	OPUC Recommended Adjustment to STI - Texas			
Distribution	Support Staff	Generation	Transmission	Total FERC Account			Distribution	Support Staff	Generation	Transmission	Total FERC Account																		
1070	\$ 889,904	\$ 95,146	\$ 119,012	\$ 209,648	\$ 1,313,710	\$ 923,491	\$ 91,351	\$ 138,442	\$ 227,275	\$ 1,380,559																			
1080	137,657	8,218	18,705	16,231	180,812	142,853	7,890	21,759	17,596	190,098 09																			
1510	-	371	16,283	-	16,654	-	356	18,941	-	19,297 30																			
1520	-	3,855	168,963	-	172,818	-	3,701	196,549	-	200,249 65																			
1630	-	-	-	-	-	-	-	-	-	-																			
1830	-	-	-	-	-	-	-	-	-	-																			
1840	-	-	-	-	-	-	-	-	-	-																			
1850	9,079	-	-	-	9,079	9,422	-	-	-	9,421 96																			
1860	45,649	1,119	335	(1,688)	45,415	47,372	1,075	389	(1,830)	47,005 65																			
1880	(8)	0	-	(11)	(19)	(8)	0	-	(12)	(20 64)																			
2420	-	-	-	-	-	-	-	-	-	-																			
4010	-	199	50	-	249	-	191	58	-	249 21																			
4264	8,388	492	-	-	8,879	8,704	472	-	-	9,176 18																			
4265	2,158	78	1,122	-	3,358	2,239	75	1,305	-	3,619 12																			
5000	5,815	4,595	161,360	-	171,770	6,035	4,411	187,704	-	198,149 70	231,337 <sup>(3)</sup>	(33,188)	36 93%	(12,255 89)															
5010	-	77	3,281	-	3,359	-	74	3,817	-	3,891 20	3,733 <sup>(3)</sup>	158	36 96%	58 43															
5020	-	8,485	334,726	-	343,211	-	8,147	389,373	-	397,520 18	437,142 <sup>(3)</sup>	(39,622)	36 93%	(14,631 59)															
5050	-	7,682	300,281	-	307,962	-	7,375	349,305	-	356,680 28	375,625 <sup>(3)</sup>	(18,945)	36 93%	(6,996 01)															
5060	-	3,710	147,631	4	151,344	-	3,562	171,733	4	175,298 83	901,968 <sup>(3)</sup>	(726,669)	36 93%	(268,345 78)															
5100	-	4,514	157,604	-	162,118	-	4,334	183,335	-	187,668 77	189,455 <sup>(3)</sup>	(1,786)	36 95%	(659 99)															
5110	-	962	32,177	-	33,139	-	924	37,430	-	38,353 94	42,159 <sup>(3)</sup>	(3,805)	36 93%	(1,405 05)															
5120	-	9,741	354,819	-	364,560	-	9,353	412,747	-	422,100 01	438,168 <sup>(3)</sup>	(16,068)	36 96%	(5,939 14)															
5130	-	2,458	95,131	56	97,645	-	2,360	110,662	61	113,083 10	113,023 <sup>(3)</sup>	60	36 96%	22 14															
5140	228	1,949	61,539	-	63,717	237	1,872	71,586	-	73,694 78	83,192 <sup>(3)</sup>	(9,497)	36 93%	(3,507 20)															
5420	-	-	-	-	-	-	-	-	-	-	5 <sup>(3)</sup>	(5)	36 93%	(1 99)															
5440	-	4	157	-	160	-	3	182	-	185 72	160 <sup>(3)</sup>	25	36 93%	9 39															
5480	-	200	8,654	-	8,853	-	192	10,066	-	10,258 19	10,411 <sup>(3)</sup>	(153)	36 93%	(56 55)															
5520	-	1	24	-	24	-	1	28	-	28 29	24 <sup>(3)</sup>	4	36 93%	1 43															
5530	-	266	11,711	-	11,977	-	256	13,623	-	13,878 33	15,338 <sup>(3)</sup>	(1,460)	36 93%	(539 14)															
5600	-	3,407	3,921	68,191	75,520	-	3,271	4,562	73,925	81,757 29	95,987 <sup>(3)</sup>	(14,230)	43 74%	(6,224 16)															
5612	-	2	-	42	45	-	2	-	46	48 25	45 <sup>(3)</sup>	3	43 75%	1 52															
5620	254	655	-	14,928	15,837	264	629	-	16,183	17,075 45	21,446 <sup>(3)</sup>	(4,370)	43 63%	(1,906 67)															
5630	21	7	-	613	641	21	7	-	665	693 05	613 <sup>(3)</sup>	81	43 83%	35 29															
5660	(0)	538	-	10,357	10,895	(0)	517	-	11,228	11,744 73	148,706 <sup>(3)</sup>	(136,961)	43 75%	(59,927 08)															
5680	-	4	-	121	124	-	4	-	131	134 44	124 <sup>(3)</sup>	10	43 67%	4 36															
5690	-	12	-	149	161	-	11	-	162	173 07	289 <sup>(3)</sup>	(115)	43 63%	(50 37)															
5700	2,885	2,004	-	43,333	48,221	2,994	1,924	-	46,976	51,893 66	65,684 <sup>(3)</sup>	(13,791)	43 63%	(6,016 57)															
5710	121	1,114	-	18,298	19,533	126	1,070	-	19,836	21,031 34	24,816 <sup>(3)</sup>	(3,785)	43 83%	(1,658 65)															
5800	25,178	1,060	4,481	639	31,358	26,128	1,018	5,212	693	33,050 99	20,217 <sup>(3)</sup>	12,834	32 90%	4,222 39															
5820	25	1,000	-	12,755	13,781	26	960	-	13,828	14,814 27	19,180 <sup>(3)</sup>	(4,366)	36 84%	(1,608 53)															
5830	61,526	3,067	-	-	64,594	63,848	2,945	-	-	66,793 29	34,696 <sup>(3)</sup>	32,098	37 25%	11,955 52															
5840	20,848	1,242	-	-	22,091	21,635	1,193	-	-	22,827 89	11,267 <sup>(3)</sup>	11,561	28 42%	3,285 32															
5850	1,210	44	-	-	1,254	1,256	42	-	-	1,298 42	215 <sup>(3)</sup>	1,084	25 45%	275 81															
5860	119,033	5,027	-	-	124,060	123,526	4,826	-	-	128,351 81	62,040 <sup>(3)</sup>	66,312	26 69%	17,699 88															
5870	9,650	449	-	-	10,099	10,014	431	-	-	10,445 52	5,707 <sup>(3)</sup>	4,738	37 01%	1,753 64															
5880	596,918	14,687	-	608	612,213	619,446	14,101	-	660	634,206 99	1,852,502 <sup>(3)</sup>	(1,218,295)	35 24%	(429,266 35)															
5900	5,744	170	-	8	5,921	5,960	163	-	8	6,132 04	3,485 <sup>(3)</sup>	2,647	36 02%	953 24															
5910	-	1	-	175	176	-	1	-	189	190 76	316 <sup>(3)</sup>	(126)	32 46%	(40 80)															
5920	-	1,787	-	24,616	26,404	-	1,716	-	26,686	28,401 90	37,288 <sup>(3)</sup>	(8,886)	36 84%	(3,274 02)															
5930	448,095	19,796	160	-	468,052	465,007	19,007	186	-	484,199 94	287,760 <sup>(3)</sup>	196,440	36 93%	72,550 38															
5940	6,589	372	-	-	6,961	6,837	357	-	-	7,194 50	3,094 <sup>(3)</sup>	4,101	28 42%	1,165 39															
5950	2,578	117	-	-	2,695	2,675	113	-	-	2,787 89	520 <sup>(3)</sup>	2,268	36 22%	821 56															
5960	6,325	252	-	-	6,577	6,564	241	-	-	6,805 61	1,790 <sup>(3)</sup>	5,016	25 45%	1,276 28															
5970	12,646	527	-	-	13,172	13,123	506	-	-	13,628 75	6,977 <sup>(3)</sup>	6,652	26 69%	1,775 42															

5980	6,749	337	-	-	7,086	7,004	324	-	-	7,327.36	3,243 <sup>(3)</sup>	4,085	37.01%	1,511.84
9010	21,460	658	-	-	22,119	22,270	632	-	-	22,902.44	9,657 <sup>(3)</sup>	13,245	35.43%	4,692.77
9020	63,328	2,858	-	-	66,186	65,718	2,744	-	-	68,461.79	34,074 <sup>(3)</sup>	34,388	34.96%	12,021.10
9030	104,474	4,071	-	-	108,546	108,417	3,909	-	-	112,326.22	66,402 <sup>(3)</sup>	45,924	35.54%	16,319.42
9070	38,924	1,862	-	-	40,786	40,393	1,788	-	-	42,181.07	20,655 <sup>(3)</sup>	21,526	42.92%	9,238.77
9080	79,104	3,067	-	-	82,170	82,089	2,944	-	-	85,033.62	36,701 <sup>(3)</sup>	48,333	42.97%	20,767.62
9200	159,420	18,508	14,514	96	192,537	165,437	17,770	16,883	104	200,193.64	109,584 <sup>(3)</sup>	90,610	37.09%	33,603.77
9220	(1)	(0)	-	-	(1)	(1)	(0)	-	-	(1.05)	2 <sup>(3)</sup>	(3)	37.09%	(1.25)
9250	3,446	10,239	-	-	13,686	3,577	9,831	-	-	13,407.43	14,000 <sup>(3)</sup>	(592)	37.09%	(219.65)
9280	-	(0)	-	-	(0)	-	(0)	-	-	(0.02)	(91) <sup>(3)</sup>	91	37.09%	33.84
9302	3,516	336	1,779	2,934	8,565	3,649	322	2,069	3,180	9,220.99	10,317 <sup>(3)</sup>	(1,096)	37.09%	(406.62)
9350	1	60,975	-	-	60,976	1	58,543	-	-	58,543.99	82,736 <sup>(3)</sup>	(24,192)	37.09%	(8,971.82)
<u>\$ 2,898,940 \$ 314,374 \$ 2,018,419 \$ 422,102 \$ 5,653,835</u>						<u>\$ 3,008,351 \$ 301,834 \$ 2,347,949 \$ 457,592 \$ 6,115,726 (2)</u>						<u>\$ 5,933,784 <sup>(3)</sup></u>	<u>\$ (1,677,713)</u>	<u>\$ (617,854)</u>
Expense										<u>\$ 4,256,071 (2)</u>	<u>\$ 5,933,784</u>	<u>\$ (1,677,713)</u>	<u>\$ (617,854)</u>	

Sources

(1) Cannady Workpapers, Tab "Co ICP proforma" Adjusted 2019 as filed

(2) SCH CTC-8

(3) Rate Filing Package, A-3 Proforma Adjustments, Tab "A-3 2(SWEP Co Incentives)"

(4) Rate Filing Package, Schedule P-1

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

RECOMMENDED ADJUSTMENT TO AEPSC STI COMPENSATION

TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Proposed Adjustments to TY AEPSC STI (1)	OPUC Recommended Adjustments to TY AEPSC STI	OPUC Recommended Adjustment to SWEPCO Filing	Texas Allocation Factor (3)	OPUC Recommended Adjustment to STI - Texas
5000	\$ (984,923)	\$ (1,137,446)	\$ (152,522)	36 93%	\$ (56,325)
5010	(65,060)	(75,135)	(10,075)	36 96%	(3,724)
5020	(17,415)	(20,112)	(2,697)	36 93%	(996)
5050	(294)	(340)	(46)	36 93%	(17)
5060	757,039	874,272	117,233	36 93%	43,292
5100	(30,969)	(35,765)	(4,796)	36 95%	(1,772)
5110	(39,361)	(45,456)	(6,095)	36 93%	(2,251)
5120	(166,652)	(192,460)	(25,807)	36 96%	(9,539)
5130	(40,383)	(46,636)	(6,254)	36 96%	(2,311)
5140	(6,767)	(7,815)	(1,048)	36 93%	(387)
5240	(0)	(0)	(0)	36 93%	(0)
5280	(598)	(690)	(93)	36 93%	(34)
5290	(23)	(27)	(4)	36 93%	(1)
5300	(2)	(2)	(0)	36 93%	(0)
5310	(1)	(1)	(0)	36 93%	(0)
5350	(387)	(447)	(60)	36 93%	(22)
5370	(46)	(54)	(7)	36 93%	(3)
5390	(343)	(396)	(53)	36 93%	(20)
5450	(42)	(49)	(7)	36 93%	(2)
5510	2	2	0	36 93%	0
5530	(1,074)	(1,241)	(166)	36 93%	(61)
5560	(131,015)	(151,304)	(20,289)	36 93%	(7,492)
5570	(312,317)	(360,682)	(48,365)	36 93%	(17,860)
5600	(548,347)	(633,262)	(84,915)	43 74%	(37,143)
5612	(82,168)	(94,893)	(12,724)	43 75%	(5,568)
5615	(20,060)	(23,166)	(3,106)	43 75%	(1,359)
5620	(504)	(582)	(78)	43 63%	(34)
5630	(1,785)	(2,061)	(276)	43 83%	(121)
5660	(117,988)	(136,259)	(18,271)	43 75%	(7,995)
5670	(7)	(8)	(1)	43 24%	(0)
5680	(817)	(943)	(126)	43 67%	(55)
5690	(9)	(10)	(1)	43 63%	(1)
5691	(737)	(852)	(114)	43 63%	(50)
5692	(11,868)	(13,706)	(1,838)	43 63%	(802)
5700	(18,162)	(20,974)	(2,812)	43 63%	(1,227)
5710	(2,719)	(3,140)	(421)	43 83%	(185)
5730	(122)	(141)	(19)	43 75%	(8)
5800	(124,340)	(143,595)	(19,255)	32 90%	(6,335)
5820	(5,536)	(6,393)	(857)	36 84%	(316)
5830	(43)	(49)	(7)	37 25%	(2)
5840	(1,553)	(1,793)	(240)	28 42%	(68)
5860	(16,111)	(18,606)	(2,495)	26 69%	(666)
5880	255,041	294,536	39,495	35 24%	13,916
5900	(1,035)	(1,195)	(160)	36 02%	(58)
5920	(7,812)	(9,022)	(1,210)	36 84%	(446)
5930	(4,943)	(5,709)	(765)	36 93%	(283)
5970	(25)	(29)	(4)	26 69%	(1)
9010	(5,724)	(6,611)	(886)	35 43%	(314)
9020	(9,895)	(11,427)	(1,532)	34 96%	(536)
9030	(718,889)	(830,214)	(111,325)	35 54%	(39,560)
9050	(1,810)	(2,091)	(280)	35 43%	(99)
9070	(9,005)	(10,400)	(1,395)	42 92%	(599)
9080	(5,186)	(5,989)	(803)	42 97%	(345)
9100	(1,807)	(2,087)	(280)	34 55%	(97)
9120	(80)	(93)	(12)	34 56%	(4)
9200	(2,763,992)	(3,192,016)	(428,024)	37 09%	(158,738)
9210	(954)	(1,101)	(148)	37 09%	(55)
9230	21,586	24,929	3,343	37 09%	1,240
9250	(2,428)	(2,804)	(376)	37 09%	(139)
9260	(2,333)	(2,694)	(361)	37 09%	(134)
9280	(200,371)	(231,399)	(31,029)	37 09%	(11,507)
9301	(18)	(21)	(3)	37 09%	(1)
9302	(17,238)	(19,908)	(2,669)	37 09%	(990)
9350	(17,451)	(20,154)	(2,702)	37 09%	(1,002)
Total SWEPCO	\$ (5,487,878)	\$ (6,337,715) <sup>(2)</sup>	\$ (849,837)	37 80%	\$ (321,212)

## Sources

(1) Rate Filing Package, Exhibit BJF-6B

(2) Calculated from SWEPCO Response to OPUC RFI No. 1-15, Attachment 2

(3) Rate Filing Package, Schedule P-1

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

## RECOMMENDED ADJUSTMENT TO NON-ELIGIBLE FUEL EXPENSE TO REMOVE DHLC EQUITY AND RELATED TAXES

TEST YEAR ENDED MARCH 31, 2020

		<b>SWEPCO Proposed</b>	<b>OPUC Recommended</b>	<b>OPUC Recommended Adjustment</b>
Test Year Ineligible Fuel Expense Related to DHLC Equity and Related Taxes	FERC 501	\$ 1,418,466 (1)	\$ -	\$ (1,418,466)
Texas Jurisdictional Allocation Factor				
		<b>SWEPCO Proposed - Texas</b>	<b>OPUC Recommended - Texas</b>	<b>OPUC Recommended Adjustment</b>
Texas Jurisdictional Allocation Factor (2)	36.96%			
		\$ 524,292	-	\$ (524,292)

## Sources:

(1) Rate Filing Package, Direct Testimony of Michael A. Baird, Page 35

(2) Calculated from Rate Filing Package, Schedule P-1, TX Juns, Line 471

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

SWEPCO

**RECOMMENDED ADJUSTMENT TO DEPRECIATION AND AMORTIZATION FOR DOLET HILLS UNRECOVERED NET BOOK VALUE  
TEST YEAR ENDED MARCH 31, 2020**

	<u>Total Company</u>	<u>Texas Allocation Factor</u>	<u>Texas Jurisdiction</u>
Net Book Value of Dolet Hills Before Implementation of DH Rate Rider	\$ 105,063,807 <sup>(1)</sup>		
Expected Additional Recovery through DH Rate Rider Depreciation (through Dec 2021)	<u>6,618,060 <sup>(1)</sup></u>		
Net Book Value to be Recovered at Retirement	98,445,747		
Demolition Costs to be Recovered at Retirement	10,740,383 <sup>(2)</sup>		
OPUC Recommended Amortization of 25 years (Based on 2046 Retirement Date)	4,367,445 <sup>(3)</sup>	36.943% <sup>(4)</sup>	\$ 1,613,483
Company Proposed Depreciation Expense	<u>10,120,876 <sup>(2)</sup></u>	36.943% <sup>(4)</sup>	<u>3,738,997 <sup>(2)</sup></u>
OPUC Recommended Adjustment to Depreciation Expense for Dolet Hills	<u>\$ (5,753,431)</u>		<u>\$ (2,125,514)</u>

## Sources

(1) Schedule CTC-3

(2) Rate Filing Package, Exhibit MAB-4

(3) Based on recovery of plant investment over normal life cycle of Dolet Hills

(4) Calculated from Rate Filing Package, Exhibit MAB-4.

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO PROPOSED STORM RESERVE  
TEST YEAR ENDED MARCH 31, 2020

	SWEPCO Proposed Storm Reserve	OPUC Recommended	OPUC Recommended Adjustment
Annual Storm Reserve Accrual Average Expected Losses	\$ 799,700 <sup>(1)</sup>	\$ 757,779 <sup>(2)</sup>	\$ (41,921)
Annual Storm Reserve Accrual to Restore Reserve Deficit	890,000 <sup>(1)</sup>	795,000 <sup>(2)</sup>	(95,000)
Total Storm Reserve Annual Accruals for Texas Jurisdiction	<u>\$ 1,689,700</u>	<u>\$ 1,552,779</u>	<u>\$ (136,921)</u>

Sources:

(1) Rate Filing Package Direct Testimony of Gregory S. Wilson, page 4

(2) Calculated based on SWEPCO Response to OPUC RFI No. 4-1, Attachment 1 (With storm limit cost of \$6,4 million)

**SOAH DOCKET NO. 473-21-0538**  
**PUC DOCKET NO. 51415**  
**SWEPCO**  
**RECOMMENDED ADJUSTMENT TO VEGETATION MANAGEMENT EXPENSE**  
**TEST YEAR ENDED MARCH 31, 2020**

	<u>Texas Jurisdiction</u>
SWEPCO Proposed Increase to Texas Vegetation Management Expense	\$ 5,000,000
OPUC Recommended Increase to Texas Vegetation Management Expense	<u>-</u>
OPUC Recommended Adjustment	<u><u>\$ (5,000,000)</u></u>

Source:  
Rate Filing Package, Schedule A-2.30



**SOAH DOCKET NO. 473-21-0538**  
**PUC DOCKET NO. 51415**  
**SWEPCO**  
**RECOMMENDED ADJUSTMENT TO AD VALOREM TAXES**  
**TEST YEAR ENDED MARCH 31, 2020**

	<b>Total Company</b>	<b>Texas Allocation Factor</b>	<b>Texas Jurisdiction</b>
	(1)	(2)	
SWEPCO Ad Valrem Taxes Related to Dolet Hills	\$ 2,835,700	37.99%	\$ 1,077,282
OPUC Recommended Ad Valorem Taxes for Dolet Hills in Revenue Requirements	<u>-</u>	37.99%	<u>\$ -</u>
OPUC Recommended Adjustment to SWEPCO Proposed Revenue Requirements	<u><u>\$ (2,835,700)</u></u>		<u><u>\$ (1,077,282)</u></u>

Sources:

(1) SWEPCO Response to Commission Staff RFI No. 5-9

(2) Rate Filing Package, Schedule P-1

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
RECOMMENDED ADJUSTMENT TO SEVERANCE PAY  
TEST YEAR ENDED MARCH 31, 2020

	SWEPSCO AEPSC Severance Pay (1)	SWEPSCO Direct Severance Pay (2)	SWEPSCO Total Severance Pay	OPUC Recommended AEPSC Severance Pay (3)	OPUC Recommended Direct Severance Pay (2)	OPUC Recommended Total Severance Pay	OPUC Recommended Adjustment to Revenue Requirements	Texas Retail Allocation Percentage	OPUC Recommended Adjustment to Revenue Requirements - Texas
5000 - Oper Supervision & Engineering	\$ 1,455,253	\$ 236,754	\$ 1,692,007	\$ 582,155	\$ -	\$ 582,155	\$ (1,109,853)	36.93%	\$ (409,858.58)
5020 - Steam Expenses	1,913		1,913	2,125		2,125	213	36.93%	79
5570 - Other Expenses	149		149	27,444		27,444	27,295	36.93%	10,079
5600 - Oper Supervision & Engineering		174,340	174,340		-	-	(174,340)	43.75%	(76,282)
5800 - Oper Supervision & Engineering		126,246	126,246		-	-	(126,246)	32.90%	(41,534)
9030 - Cust Records & Collection Exp	2,084		2,084	19,906		19,906	17,822	35.54%	6,333
9200 - Administrative & Gen Salaries	1,477	229,734	231,211	192,615	-	192,615	(38,596)	37.09%	(14,314)
			0						
Total	\$ 1,460,876	\$ 767,074	\$ 2,227,950	\$ 824,245	\$ -	\$ 824,245	\$ (1,403,705)		\$ (525,497)

## Sources:

- (1) SWEPCO Response to Commission Staff RFI No. 5-33, Attachment 1  
(2) SWEPCO Response to Commission Staff RFI No. 5-33, Attachment 2  
(3) Calculated from SWEPCO Response to Commission Staff RFI Nos. 5-33 and 5-34

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415  
SWEPCO  
ESTIMATED ATTENDANT IMPACTS TO CASH WORKING CAPITAL  
TEST YEAR ENDED MARCH 31, 2020

(1) Description	(2) Book Amount	(3) Proforma	(4) Adjusted Test Year Amount	(5) Avg Daily Expense	(6) Revenue Lag Days	(7) Expense Lead Days	(8) Net (Lead)/Lag	(9) Working Capital Requirement
Operation & Maintenance Expense								
Fuel								
Coal	165,804,222		165,804,222	454,258	4 73	(19 67)	(14 94)	(6,786,497)
Oil	89,538,282		89,538,282	245,310	4 73	(26 15)	(21 42)	(5,255,671)
Gas	1,609,996		1,609,996	4,411	4 73	(40 12)	(35 39)	(156,123)
Lignite	153,199,030		153,199,030	419,723	4 73	(30 75)	(26 02)	(10,921,677)
Purchased Power	207,609,120		207,609,120	568,792	4 73	(36 54)	(31 81)	(18,093,277)
Other O&M	478,152,999	24,444,165	502,597,164 (2)	1,376,979	4 73	(39 92)	(35 19)	(48,455,875)
Federal Income Taxes								
Current	7,868,487	12,110,110	19,978,597 (3)	54,736	4 73	(36 50)	(31 77)	(1,738,959)
Deferred	(13,505,811)	21,766,421	8,260,610 (1)	22,632	0 00	0 00	0 00	-
State Income Taxes								
Current	1,078,801	(1,078,801)	-	-	4 73	(36 50)	(31 77)	-
Deferred	(2,443,565)	2,443,565	-	-	0 00	0 00	0 00	-
Taxes Other Than Income Taxes								
Payroll Taxes	7,052,634	(77,460)	6,975,174 (4)	19,110	4 73	(22 36)	(17 63)	(336,910)
Local Franchise Tax	17,684,405	(5,303,766)	12,380,638	33,920	4 73	(66 54)	(61 81)	(2,096,568)
Public Utility Commission Tax	2,177,698	8,163	2,185,861	5,989	4 73	(306 30)	(301 57)	(1,806,000)
Texas State Gross Margin Tax	462,753	(958,573)	(495,820)	(1,358)	4 73	46 00	50 73	(68,912)
Ad Valorem Taxes								
Arkansas	15,793,302	1,278,649	17,071,951	46,772	4 73	(393 65)	(388 92)	(18,190,746)
All Other States	46,622,204	934,651	47,556,856 (4)	130,293	4 73	(188 30)	(183 57)	(23,917,841)
Texas State Gross Receipts Tax	6,215,215	51,292	6,266,507	17,169	4 73	(75 00)	(70 27)	(1,206,431)
Other Taxes Other Than Income Taxes	4,519,122	(4,517,420)	1,703	5	4 73	(4 73)	0 00	-
Interest on Customer Deposits	724,395	-	724,395	1,985	4 73	(164 16)	(159 43)	(316,412)
Depreciation Expense			-	-	0 00	0 00	0 00	-
Return	389,318,076	-	389,318,076	1,066,625	0 00	0 00	0 00	-
Subtotal	\$ 1,579,481,365	\$ 51,100,996	\$ 1,630,582,362					\$ (139,347,901)
Working Funds and Other								(2,706,815)
Total								\$ (142,054,716)

## Sources

- (1) Rate Filing Package, Schedule E-4  
(2) Cannady WPA, Excel Line AE 287  
(3) Cannady Workpapers, Tab "G-7 B"  
(4) Cannady Workpapers, Tab "G-9 (Taxes Other than Income)"

# ATTACHMENTS



**Connie Cannady**  
Executive Consultant  
ccannady@newgenstrategies.net

With over thirty-five years of financial and managerial consulting experience, Connie Cannady is an expert in the areas of utility regulation and franchising of utility services, both at the local and state level. Prior to joining NewGen Strategies and Solutions, Ms. Cannady was the Founder and President of C2 Consulting Services, Inc., a woman-owned business enterprise. Ms. Cannady's previous experience also includes serving as a Manager at Reed-Stowe & Co. Inc.; Manager of Accounting and Control for the Information Services Division of Blue Cross of California; Senior Consultant for Touché Ross & Co. (now Deloitte); and Management Auditor for the U.S. General Accounting Office.

## EDUCATION

- Master of Public Affairs, University of Texas
- Bachelor of Arts in Political Science, Vanderbilt University

## KEY EXPERTISE

- Expert Witness and Litigation Support
- Regulatory Proceedings
- Utility ROW Franchising and Compensation
- Cost Allocation Models

## RELEVANT EXPERIENCE

### Expert Witness and Litigation Support

Ms. Cannady serves as project manager and lead analyst for numerous regulatory proceedings for rates, assisting clients by providing expert testimony and litigation support regarding utility rate and regulatory issues before state and local regulatory bodies and courts. She frequently works with coalitions of cities served by investor-owned utilities and provides analyses and expert witness support related to the utilities' requests for rate increases. Ms. Cannady also provides support services to the U.S. Army Corp of Engineers concerning rate proceedings impacting utility rates at U.S. Army installations.

Her direct experience includes conducting analyses with respect to the reasonableness of various rate base issues, including the prudence of costs. Areas of analysis and provided testimony include:

- Reasonableness of certain rate based costs related to benefits and other operating reserves
- Calculation of Accumulated deferred income taxes
- Reasonableness of operations and maintenance expenses related to labor expense, benefits expense, including health and welfare, pension, deferred compensation, ESOPs and other savings plans, corporate overhead cost allocation methodologies, call center operations, bonuses and other long and short-term incentive pay programs, taxes other than income and federal income taxes.
- Reasonableness of affiliated transaction expenses
- Computation of fuel factors and purchase power factors to be used in the collection of power costs
- Reasonableness of certain advanced meter investments
- Reasonableness of requested inclusion of certain regulatory assets
- Analysis of the "used and useful" nature of requested plant additions
- Analysis of customer class cost allocation methodologies

Ms. Cannady's expert witness and litigation support clients include:

**Connie Cannady**  
Executive Consultant

---

**Maryland Public Service Commission**

- U.S. Army Installations Served by Baltimore Gas & Electric; Case Nos. 9355 and 9406

**New York Public Service Commission**

- U.S. Army Installations Served by Orange & Rockland Utilities; Case Nos. 14-E-0493 and 14-G-0494

**Public Utility Commission of Texas**

- Cities Served by CenterPoint Energy Houston Electric; Dockets Nos. 48266, 45747 and 12065
- Cities Served by Southwestern Electric Power Company (SWEPCO), Texas; Docket Nos. 37364, 39708, 40443, 40446
- Cities Served by AEP Texas Central Company, Texas; Docket No. 33309
- Cities Served by AEP Texas North Company, Texas; Docket Nos. 33310, 4202 and 4716
- Cities Served by Sharyland Utilities, Texas; State Office of Administrative Hearings (SOAH); Docket No. 473-99-2566, and Docket No. 51611
- Cities Served by Texas-New Mexico Power Company, Texas; Docket Nos. 15560, 12900, 10200, 22636, 36025, 22745
- Cities served by Oncor Electric Delivery Company, Texas; Docket Nos. 48325, 48231, 5640
- Cities served by Entergy Texas; Docket No. 51381, 51381, 48371 and 4510
- Cities Served by General Telephone Company of the Southwest (Verizon); Docket Nos. 4300 and 5011
- Project No. 14400 - Integrated Resource Planning
- Office of Public Utility Counsel – AEP Texas, Inc. Docket No. 49494
- Office of Public Utility Counsel – SPS Docket No. 49831

**North Carolina Utilities Commission**

- Duke Energy Progress – Docket No. E-2 SUB 1142

**Oklahoma Corporation Commission**

- Arkansas Oklahoma Gas Corporation; Cause No. PUD 001346

**Railroad Commission of Texas**

- CenterPoint Energy Entex; Docket GUD Nos. 9654, 9902, 10038, 10182, 10432, 10567, and 10920
- Atmos Energy; Docket GUD Nos. 9670, 10000, 10170, 10174, 10359, 10580, and 10900
- Texas Gas Services, Docket GUD Nos. 10488, 10526, 10766 and 10928
- TXU Gas; Docket No. GUD 9400
- TXU Gas Transmission; Docket No. GUD 8935
- Lone Star Gas Company Gate Rate; Docket No. GUD 8664
- Lone Star Gas Company Gate Rate; Docket No. GUD 3543

**Arizona Corporation Commission**

- Arizona Public Service Company, Arizona; Docket No. U-1345-82-266.

**New Mexico State Corporation Commission**

- Continental Telephone Company of the West; Docket No. 942
- General Telephone Company of the Southwest; Docket No. 990

**Colorado Public Utilities Commission**

- Southern Colorado Power - Cost Allocation Study

**Alabama Public Service Commission**

- Alabama Power Company - Fuel Procurement Review

**Indiana Regulatory Commission**

- Northern Indiana Public Service Company – Cause No. 44733-TDSIC-2
- Northern Indiana Public Service Company- Cause No. 44733-TDSIC-3
- Northern Indiana Public Service Company Cause No. 45159
- Indiana Michigan Power Company Cause No. 45325

## FERC

- NESCOE, Docket No. ER18-1639 regarding Constellation Mystic Power, LLC

## Cost Allocation Modeling

Ms. Cannady has conducted cost allocation modeling for municipal utility clients. She has developed a cost allocation model (CAM) for allocating all utility overhead as well as the city's general fund overhead to the functions of production, distribution and transmission. The objectives of these studies were to more accurately reflect the fully loaded transmission costs to be separated from distribution costs in deregulated utility markets. The CAM models also include functionalizing the aggregated capitalized interest so that the value of the utility assets can be more accurately reported. Ms. Cannady has also assisted municipal clients in developing a cost allocation model to be used by the city to allocate general fund costs to each of its enterprise operations, including the electric utility, water and wastewater, and solid waste. Finally, Ms. Cannady has reviewed the appropriateness of cost allocation methodologies used by utility operations when developing rates. Her cost allocation projects include:

- |  |  |
|--|--|
| ▪ Develop CAM model for Garland Power & Light, Garland, Texas                        | ▪ Develop Indirect Cost Allocation Model – City of Greenville, Texas |
| ▪ Develop CAM model for Water and Wastewater Operations - City of Garland, Texas     | ▪ Develop Indirect Cost Allocation Model – City of Denton Texas      |
| ▪ Review of Overhead Cost Allocations – Lower Colorado River Authority               | ▪ Develop Indirect Cost Allocation Model – City of Terrell, Texas    |
| ▪ Review of Cost Allocation for Maintenance Activities – San Jacinto River Authority | ▪ Develop Indirect Cost Allocation Model – City of Brenham, Texas    |

## Franchising of Utility Service in Municipal Right-of-Way

Ms. Cannady has assisted numerous municipalities/counties in negotiating franchises that allow utility service providers to construct in the municipalities' rights-of-way. In addition, Ms. Cannady has assisted in reviewing the actual payments made by the utilities to determine the accuracy of such payments in accordance with franchise terms or state and federal laws. She has assisted municipalities/counties in Texas, California, Washington, New York, Missouri, Illinois, Massachusetts, Maine and Kentucky. The majority of the projects concern the payment of cable services, but many of the projects have also involved review of franchising terms and payments from natural gas utility operations, electric service operations and telecommunications services.

## Right-of-Way Costs

Ms. Cannady has conducted analysis of the costs incurred by municipalities in allowing utilities to have ubiquitous access to the Right-of-Way. Her clients include:

- |                                  |                                 |
|----------------------------------|---------------------------------|
| ▪ City of Durham, North Carolina | ▪ City of Tucson, Arizona       |
| ▪ City of Atlanta, Georgia       | ▪ Texas Municipal League, Texas |
| ▪ City of Cheyenne, Wyoming      |                                 |

## Connie Cannady

Executive Consultant

---

### WORKSHOPS AND PRESENTATIONS

Ms. Cannady is an instructor on behalf of Electric Utility Consultants, Inc. (EUCI), co-authoring and presenting witness preparation materials at multiple conferences and speaking on related topics at industry forums. Her experience includes:

#### **NARUC Staff Subcommittee on Accounting & Finance**

- *Expert Witness Techniques*

#### **Electric Utility Consultants, Inc. (EUCI)**

- *EUCI Witness Preparation Training Conferences*  
(six conferences in 2013, 2014, 2016, 2017  
2018, and 2019)

#### **Government Finance Officers Association of Texas**

- *Franchise Fees – Accuracy and Compliance*
- *Franchise Fees, Identifying the Issues*

#### **Texas Association of Telecommunications Officers and Advisors**

- *Effective Competition: A Case Study - The City of Denton*
- *Issues Regarding Cable Television Franchise Payments*
- *Customer Service Issues*

#### **National Association of Telecommunications Officers and Advisors**

- *Hooray for Competition*
- *Prime Real Estate: Managing the Public Rights-of-Way*

#### **The ABC's of Energy Conference**

- *Rate Making Issues*

#### **Oklahoma Municipal League**

- *Cable Rights*

#### **Federal Bar Association**

- *Basics of Cable Television Regulation*



Record of Testimony Submitted by Connie Cannady

Utility	Proceeding	Subject of Testimony	Before	Client	Date
1. Sharyland Utilities, LLC	Docket No. 51611	Revenue Requirements for Transmission Cost of Service	Public Utility Commission of Texas	Office of Public Utility Counsel	2021
2. Entergy Texas, Inc.	Docket No. 51381	Cost Components of New Generation Facility	Public Utility Commission of Texas	Office of Public Utility Counsel	2020
3. Time Warner Cable Texas et.al	Case No. 6:19-cv-345-ADA-JCM	Audit of Franchise Fees and PEG Fees (expert report filed)	US District Court – Western District of Texas	Cities Served by Time Warner Cable and Charter Communications d/b/a Spectrum	2020
4. Comcast Cable	Civil Action No. 4:19-CV-00458	Audit of Franchise Fees and PEG Fees (expert report and deposition)	US District Court - Southern District of Texas	Cities Served by Comcast Cable	2020
5. Texas Gas Services	GUD No. 10928	Revenue Requirements, labor and labor related expenses, storm reserve, impacts of TCJA	Railroad Commission of Texas	Cities Served by Texas Gas Utilities	2020
6. Southwestern Public Service Company – Xcel Energy	Docket No. 49831	Cost recovery of production related assets for coal and wind facilities and incentive compensation for direct and service company employees	Public Utility Commission of Texas	Office of Public Utility Counsel	2020
7. CenterPoint Energy Entex Beaumont/East Texas Division	GUD No. 10920	Treatment of labor related incentive compensation, pension and OPEB benefits, amortization of regulatory assets, and treatment of non-qualified pension benefits	Railroad Commission of Texas	East Texas Coalition of Cities	2020
8. Atmos West Texas Triangle Pipeline	GUD No. 10900	Treatment of labor related incentive compensation and excess deferred taxes from passage of TCJA	Railroad Commission of Texas	West Texas Cities	2019
9. Indiana Michigan Power Company	Cause No. 45235	Treatment of Tax Rate Change and EDIT Refund, Nuclear Decommissioning Fund, Recovery of Plant Investment, AMI Deployment	Indiana Utility Regulatory Commission	Cities of Marion and Fort Wayne, Indiana	2019
10. AEP Texas, Inc	Docket No. 49494	Revenue Requirements, labor and labor related expenses, storm reserve, impacts of TCJA	Public Utility Commission of Texas	Office of Public Utility Counsel	2019

**Record of Testimony Submitted by Connie Cannady**

11. Northern Indiana Public Service Company	Cause No. 45159	Treatment of Corporate Tax Rate Change and EDIT and Depreciation on Early Plant Retirement	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2019
12. Constellation Mystic Power, LLC	Docket No. ER18-1639	Cash Working Capital, Overtime Expense, Incentive Pay, TCJA Impacts and True-Up Protocols	Federal Energy Regulatory Commission	New England States Committee on Electricity	2018
13. Entergy Texas, Inc.	Docket No. 48371	Post Test Year Adjustment, Storm Regulatory Assets, Retired Plant, Employee Benefits, Treatment of Excess Deferred Income Taxes	Public Utility Commission of Texas	Office of Public Utility Counsel	2018
14. Oncor Electric Service Company	Docket No. 48325	Proposed amortization of excess deferred income taxes, refund of income tax overcharges since January 1, 2018 and appropriate carrying charges	Public Utility Commission of Texas	Alliance of Oncor Cities	2018
15. Oncor Electric Service Company	Docket No. 48231	Proposed CIS Depreciation Rate and treatment of Corporate Tax Rate Change in Distribution Cost Recovery Tracker Rate	Public Utility Commission of Texas	Alliance of Oncor Cities	2018
16. CenterPoint Energy Houston Electric	Docket No. 48226	Treatment of Corporate Tax Rate Change in Distribution Cost Recovery Tracker Rate	Public Utility Commission of Texas	Texas Coast Utilities Coalition	2018
17. CenterPoint Energy Entex South Division	GUD No. 10669	Rate Base and Operating Income Issues, Affiliated Charges, Treatment of Excess Deferred Income Taxes (Settled)	Railroad Commission of Texas	Alliance of CenterPoint Municipalities	2018
18. Northern Indiana Public Service Company	Cause No. 44733-TDSIC-3	Treatment of Corporate Tax Rate Change and EDIT	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2018
19. Duke Energy Progress	Docket No. E-2 SUB 1142	Cancelled Plant Prudency, Deferred Asset Treatment, Benefits	North Carolina Utilities Commission	U.S. Dept. of Defense and Other Federal Agencies	2017
20. Northern Indiana Public Service Company	Cause No. 44733-TDSIC-2	Tax Gross-Up Treatment in Investment Tracker	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2017
21. Atmos Pipeline Texas	GUD No. 10580	Rate Base and Operating Income Issues, ADIT NOL	Railroad Commission of Texas	Atmos Cities Steering Committee	2017

**Record of Testimony Submitted by Connie Cannady**

22. CenterPoint Energy Entex Texas Gulf Division	GUD No. 10567	Rate Base and Operating Income Issues, Affiliated Charges	Railroad Commission of Texas	Gulf Coast Coalition of Cities	2017
23. CenterPoint Energy Houston Electric	Docket No. 45747	Allocation of Certain Corporate Costs included in DCRF rate adder	Public Utility Commission of Texas	Texas Coast Utilities Coalition	2016
24. CenterPoint Energy Entex	GUD No. 10432	Rate Base and Operating Income Issues, Affiliated Charges	Railroad Commission of Texas	Texas Coast Utilities Coalition	2015
25. Baltimore Gas and Electric	Case No. 9355	Rate Base and Operating Income Issues, Cost Allocation Issues	Maryland Public Service Commission	U.S. Dept. of Defense and Other Federal Agencies	2014
26. Atmos Energy	Docket No. 10359	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2014
27. SWEPCO	Docket No. 40443	Rate Base and Operating Income Issues	Public Utility Commission of Texas	Cities Served by SWEPCO	2012
28. CenterPoint Energy Entex	GUD No. 10182	Rate Base and Operating Income Issues	Railroad Commission of Texas Case Settled Before Hearing	East Texas Cities	2012
29. Atmos Energy	GUD No. 10174	Rate Base and Operating Income Issues	Railroad Commission of Texas	West Texas Cities Steering Committee	2012
30. Atmos Energy	GUD No. 10170	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2012
31. CenterPoint Energy Entex	GUD No. 10038	Rate Base and Operating Income Issues	Railroad Commission of Texas	Steering Committee of Cities Served by CenterPoint South Texas Division	2011
32. Atmos Energy	GUD No. 10000	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2010
33. Texas-New Mexico Power Company	Docket No. 38480	Rate Base and Operating Income Issues	Public Utility Commission of Texas	Cities Served by TNMP	2010
34. CenterPoint Energy Entex	GUD No. 9902	Labor Costs, Group Benefits, and Valorem Taxes	Railroad Commission of Texas	Gulf Coast Coalition of Cities Served by CenterPoint Houston Division	2009
35. AEP – Texas Central Company	Docket No. 33309	Labor Costs, Group Benefits, and Energy Efficiency Program Costs	Public Utility Commission of Texas	Cities Served by AEP Texas Central Company	2007
36. AEP – Texas North Company	Docket No. 33310	Labor Costs, Group Benefits, and Energy Efficiency Program Costs	Public Utility Commission of Texas	Cities Served by AEP Texas North Company	2007

**Record of Testimony Submitted by Connie Cannady**

37. Atmos Energy	Docket No. GUD 9670	Operations and Maintenance Expenses and Summary Schedules	Railroad Commission of Texas	Atmos Cities Steering Committee	2006
38. TXU Gas	Docket No. GUD 9400	Rate Base and Present Revenue Computation	Railroad Commission of Texas	Allied Coalition of Cities	2003
39. Texas-New Mexico Power Company	Docket No. 22745	Fuel Costs and Recovery	Public Utility Commission of Texas	Cities Served by TNMP	2001
40. Lone Star Gas Company	Docket No. GUD 8935	Purchased Gas Adjustment Clause	Railroad Commission of Texas Case Settled Before Hearing	Allied Coalition of Cities	1999
41. Garland Independent School District v. Lone Star Gas Company	Cause No. 97- 00070-A	Natural Gas Billings based on Contractual Rates	Texas State District Court	Garland Independent School District	1997
42. Houston Lighting & Power Company	Docket No. 12065	Appropriate Rate Treatment of Fuel Inventories and Fuel Expense	Public Utility Commission of Texas	Gulf Coast Coalition of Cities	1994
43. Texas Electric Utilities Company	Docket No. 5640	Appropriate Rate Base to be Included in Rates	Public Utility Commission of Texas	Cities Steering Committee	1985

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
SECOND SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 2-13:**

Please provide any adjustments proposed by SWEPCO to Dolet Hills non-fuel O&M expenses or AEPSC billings to SWEPCO to reflect the anticipated retirement of Dolet Hills.

**Response No. CARD 2-13:**

SWEPCO has not proposed any adjustments related to Dolet Hills non-fuel O&M expenses or AEPSC billings to SWEPCO to reflect the anticipated retirement of Dolet Hills no later than December 31, 2021. As such, SWEPCO anticipates that Dolet Hills will be providing service to customers at the beginning of the rate year (April 2021) which will result in non-fuel O&M and AEPSC billings. Therefore, SWEPCO's proposal is consistent with 16 TAC § 25.231(c)(2)(F)(iii)(II) regarding post test plant adjustment decreases to rate base. 16 TAC § 25.231(c)(2)(F)(iii)(II) states that plant that has been removed from service, mothballed, sold, or removed from the electric utility's books prior to the rate year should be removed from rate base. Dolet Hills is not expected to be removed from service prior to the rate year. As such it would not be appropriate to remove Dolet Hills non-fuel O&M expenses or AEPSC billings in this case.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF  
PUBLIC UTILITY COUNSEL'S THIRD REQUEST FOR INFORMATION**

**Question No. OPUC 3-10:**

Please refer to the Direct Testimony of Mr. David A. Hodgson, page 24. Please provide the remaining proposed adjusted balance of the protected EDFIT and the proposed adjusted balance of the unprotected EDFIT that will not have been refunded to ratepayers under the Company's proposal to use a portion of the excess deferred income tax liability to offset the net book value of Dolet Hills.

**Response No. OPUC 3-10:**

The Company's proposal to offset the net book value of the Dolet Hills Power Station includes the entire Texas jurisdictional balance of unprotected excess deferred income tax liability so no remaining balance would exist to be refunded to ratepayers.

As indicated on page 24 of the testimony of Mr. Hodgson, the adjusted balance of Texas jurisdictional protected excess deferred income tax liability is \$121,725,475 before accounting for any gross-up.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF  
PUBLIC UTILITY COUNSEL'S FIFTH REQUEST FOR INFORMATION**

**Question No. OPUC 5-7:**

Please refer to the Direct Testimony of Mr. Michael Baird, page 23. Please provide a calculation of the amount by which the retirement of Dolet Hills and the proposal to recover the unrecovered undepreciated balance (after the TCJA refund offset) impacts the revenue requirement for Texas customers by customer class. Please provide the same analysis of the impact to the Texas revenue requirement by customer classes if the unrecovered undepreciated balance is not allowed to be recovered over four years, but continues to be recovered using the currently approved depreciation rates.

**Response No. OPUC 5-7:**

Please see OPUC 5-7 Attachment 1 for the requested revenue requirement by customer class for SWEPCO's proposed recovery of Dolet Hills over four years including supporting calculations. SWEPCO has not performed a calculation for recovery of Dolet Hills using the currently approved depreciation rates.

Prepared By: Earlyne T. Reynolds

Title: Reg Pricing & Analysis Mgr

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Jennifer L. Jackson

Title: Reg Pricing & Analysis Mgr

Sponsored By: John O. Aaron

Title: Dir Reg Pricing & Analysis

Sponsored By: Michael A. Baird

Title: Mng Dir Acctmg Policy & Rsrch

[illegible]



SOAH Docket No. 473-21-0538  
PUC Docket No. 51415  
OPUC's 5th RFI, Q. # OPUC 5-7  
Attachment 1  
Page 1 of 1

Southwestern Electric Power Company  
Dolet Hills Proposal Total Company Revenue Requirement

Description	Amount	Source
Remaining Net Book Value	40,483,505	MAB-4
WACC Grossed up for Taxes	8.5822%	Schedule K Calculation
Return Plus Income Taxes	3,474,389	Calculation
Property Taxes	2,835,700	TIEC 1-24
Gross Margin Tax		
Gross Operating Revenue	29,434,851	Total Revenue Requirement
Taxable Revenue Percent	70.0%	Statute
Taxable Revenue	20,604,396	Calculation
Taxable Margin Percent	0.750%	Statute
Gross Margin Tax	154,533	Calculation
Revenue Tax Factors	1.2992%	WP A-3.13
Revenue Taxes	382,411	Calculation
Depr/Amort Expense	10,120,876	MAB-4
O&M Expense	12,466,942	Sch H-2
Total Revenue Requirement	<u>29,434,851</u>	Calculation

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION  
STAFF'S FIFTH REQUEST FOR INFORMATION**

**Question No. Staff 5-27:**

Provide the most recent payroll annualized by FERC account separately for SWEPCO and for the amounts allocated to SWEPCO by AEPSC and include a detailed explanation of the calculations.

**Response No. Staff 5-27:**

Please refer to Staff 5-27 Attachment 1 for most recent payroll annualized by FERC account for amounts allocated to SWEPCO by AEPSC. The Company repeated the same process as was done for proforma adjustment calculation. The Company took the most recent payroll in October 2020 and calculated the base labor that was allocated to SWEPCO by AEPSC and then annualized that base labor amount. The Company then compared that to the test year base labor that was allocated to SWEPCO by AEPSC to calculate the proforma adjustment.

Please see Staff 5-27 Attachment 2 for the annualization of SWEPCO base payroll as of October 31, 2020. The Company used the same process in preparing this response as was used in its payroll proforma adjustment. Using the employees on the payroll roles as of October 31, 2020, the amounts were reduced to reflect the SWEPCO percentage of ownership for those locations they share ownership with other companies. This amount was distributed to FERC accounts based on the historic regular pay for the test year and a variance was calculated by comparing those two amounts.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

SOAH Docket No. 473-21-0538  
PUC Docket No. 51415  
Staff's 5th, Q. 27 Staff 5-27  
Attachment 1  
Page 1 of 2

**SOUTHWESTERN ELECTRIC POWER COMPANY**  
**October 2020 Payroll Annualized in Cost of Service**  
**Billed from AEPSC to SWEPCO by FERC Account**

FERC Account	Test Year	Annualized	Proforma Adjustment
5000 - Oper Supervision & Engineering	6,060,375.10	5,949,260.76	(111,114.34)
5010 - Fuel	419,862.33	412,222.96	(7,639.37)
5020 - Steam Expenses	96,350.64	94,550.80	(1,799.84)
5050 - Electric Expenses	2,492.59	2,446.58	(46.01)
5060 - Misc Steam Power Expenses	397,196.25	389,950.47	(7,245.78)
5100 - Maint Supv & Engineering	214,753.73	210,763.24	(3,990.49)
5110 - Maintenance of Structures	339,063.62	332,601.47	(6,462.15)
5120 - Maintenance of Boiler Plant	734,161.40	720,276.40	(13,885.00)
5130 - Maintenance of Electric Plant	188,963.43	185,411.24	(3,552.19)
5140 - Maintenance of Misc Steam Plt	69,068.41	67,753.36	(1,315.05)
5240 - Misc Nuclear Power Expenses	0.47	0.46	(0.01)
5280 - Maint Supv & Engineering	3,604.55	3,538.00	(66.55)
5290 - Maintenance of Structures	211.67	207.62	(4.05)
5300 - Maint of Reactor Plant Equip	10.84	10.96	0.12
5310 - Maintenance of Electric Plant	8.00	7.84	(0.16)
5350 - Oper Supervision & Engineering	2,728.00	2,678.15	(49.85)
5370 - Hydraulic Expenses	264.36	259.55	(4.81)
5390 - Misc Hydr Power Generation Exp	3,067.85	3,009.48	(58.37)
5450 - Maint of Misc Hydraulic Plant	575.02	565.76	(9.26)
5510 - Maint Supv & Engineering	(8.53)	(8.62)	(0.09)
5530 - Maintenance of Generating Plt	6,650.75	6,527.88	(122.87)
5560 - Sys Control & Load Dispatching	827,358.88	811,947.07	(15,411.81)
5570 - Other Expenses	1,854,343.84	1,819,890.09	(34,453.75)
5600 - Oper Supervision & Engineering	3,575,130.52	3,510,075.06	(65,055.46)
5612 - Load Dispatch-Mntr&Op TransSys	557,248.07	546,966.41	(10,281.66)
5615 - Reliability, Plng&Stds Develop	131,426.82	128,986.32	(2,440.50)
5620 - Station Expenses	3,969.95	3,901.33	(68.62)
5630 - Overhead Line Expenses	10,627.08	10,433.32	(193.76)
5660 - Misc Transmission Expenses	793,724.23	779,153.36	(14,570.87)
5670 - Rents	74.16	72.83	(1.33)
5680 - Maint Supv & Engineering	5,397.51	5,298.84	(98.67)
5690 - Maintenance of Structures	25.45	24.99	(0.46)
5691 - Maint of Computer Hardware	5,177.00	5,080.69	(96.31)
5692 - Maint of Computer Software	82,685.28	81,183.90	(1,501.38)
5700 - Maint of Station Equipment	116,016.70	113,909.41	(2,107.29)
5710 - Maintenance of Overhead Lines	12,529.73	12,306.37	(223.36)
5730 - Maint of Misc Trnsmssion Plt	694.80	682.15	(12.65)
5800 - Oper Supervision & Engineering	666,519.38	655,111.27	(11,408.11)
5820 - Station Expenses	40,189.52	39,446.57	(742.95)
5830 - Overhead Line Expenses	230.46	226.63	(3.83)
5840 - Underground Line Expenses	7,870.79	7,738.83	(131.96)
5860 - Meter Expenses	109,722.20	107,844.12	(1,878.08)
5880 - Miscellaneous Distribution Exp	628,152.20	617,285.96	(10,866.24)
5900 - Maint Supv & Engineering	4,924.23	4,841.55	(82.68)
5920 - Maint of Station Equipment	49,481.30	48,581.07	(900.23)
5930 - Maintenance of Overhead Lines	27,399.55	26,932.76	(466.79)

Attachment E  
Page 3 of 4

SOAH Docket No. 473-21-0538  
PUC Docket No. 51415  
Staff's 5th, Q. 27 Staff 5-27  
Attachment 1  
Page 2 of 2

5970 - Maintenance of Meters	201.36	197.87	(3.49)
9010 - Supervision - Customer Accts	47,205.35	46,401.75	(803.60)
9020 - Meter Reading Expenses	82,431.18	80,986.10	(1,445.08)
9030 - Cust Records & Collection Exp	5,635,793.08	5,542,904.90	(92,888.18)
9050 - Misc Customer Accounts Exp	16,735.85	16,433.82	(302.03)
9070 - Supervision - Customer Service	72,732.56	71,451.97	(1,280.59)
9080 - Customer Assistance Expenses	43,067.93	42,257.63	(810.30)
9100 - Misc Cust Svc&Informational Ex	10,697.72	10,583.25	(114.47)
9120 - Demonstrating & Selling Exp	1,650.01	1,618.72	(31.29)
9200 - Administrative & Gen Salaries	13,644,440.10	13,419,094.98	(225,345.12)
9210 - Office Supplies and Expenses	5,233.69	5,288.84	55.15
9220 - Administrative Exp Trnsf - Cr	(0.00)	-	0.00
9230 - Outside Services Employed	636.32	626.04	(10.28)
9250 - Injuries and Damages	8,333.32	8,179.64	(153.68)
9260 - Employee Pensions & Benefits	14,125.21	13,877.24	(247.97)
9280 - Regulatory Commission Exp	961,172.93	943,113.55	(18,059.38)
9301 - General Advertising Expenses	207.44	203.72	(3.72)
9302 - Misc General Expenses	111,977.54	110,047.08	(1,930.46)
9350 - Maintenance of General Plant	114,368.52	112,472.02	(1,896.50)
	<u>38,821,330.24</u>	<u>38,145,694.38</u>	<u>(675,635.86)</u>